

**Transnational Business Analysis –**  
***Workbook***

*Second edition*

**Prof. Dr. Panayotis Zamaros**



# Transnational Business Analysis

## Workbook

for

Ontario Curriculum Course BBB4M  
Grade 12 University Preparation

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Second edition

Prof. Dr. Panayotis Zamaros

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## Preface

This second edition of the workbook has been designed and written to suit the needs of students at Neuchatel Junior College, Neuchatel-Switzerland, in accordance with the content and level of difficulty of the revised Grade 12 Ontario Curriculum Course *International Business Fundamentals* BBB4M for extended university preparation, and to be used together with the course textbook *International Business: the Challenge of Global Competition* by Donald Ball et al. (most recent edition).

## **Acknowledgements**

The author wishes to acknowledge the important contribution of the International Business classes 2004 and 2005 when this text was being put together in its first edition, in addition to their encouragement and suggestions of the International Business class 2006 for improvements brought into the second edition.

## **About the author**

Panayotis Zamaros is an experienced business administrator and consultant involved with various organizational aspects of business organizations, whether strategy, people management, operations management and marketing, with an entrepreneurial approach. He is also an experienced educator, having taught business and social science courses to both undergraduate and postgraduate students at business schools and hospitality management schools of the Lake Geneva region in Switzerland. Panayotis Zamaros, holds B.Sc. Honors in Social Sciences (economics, politics-international relations, and sociology) and an M.A. in Education (management and leadership) from The Open University, and has earned a Ph.D. from Fairfax University (organizational behavior and management and multidisciplinary philosophy). Panayotis Zamaros is President or the World Council of the International of the International Institute of Enterprise Management.

## 1. Course outline <sup>1</sup>

The aim of this session is to

- Outline the content of course.
- Explain assessment policies, type and structure.
- Explain grading policies

### 1 Course Description

This course provides an overview of the importance of international business and trade in the global economy and explores the factors that influence success in international markets. Students learn about the techniques and strategies associated with marketing, distribution, and managing international business effectively. This course prepares students for postsecondary programs in business, including international business, marketing and management.

### 2 Prerequisite / Co-requisite courses

None.

### 3 Overall Expectations

By the end of this course students will be able to:

#### Business, Trade and the Economy

- demonstrate an understanding of terminology, concepts, and basic business communication practices related to international business;
- analyse the impact of international business activity on Canada's economy;
- demonstrate an understanding of how international business and economic activities increase the interdependence of nations.

#### Global Environment for Business

- analyse ways in which Canadian businesses have been affected by globalization;
- demonstrate an understanding of the factors that influence a country's ability to participate in international business;
- assess the effects of current trends in global business activity and economic conditions.

#### Factors Influencing Success in International Markets

- analyse the ways in which cultural factors influence international business methods and operations;

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<sup>1</sup> Date of Last Revision: 12 June 2006

## Course outline

- assess the ways in which political, economic, and geographic factors influence international business methods and operations;
- identify and describe common mistakes made by businesses in international markets;
- evaluate the factors currently affecting the international competitiveness of Canadian businesses.

### Marketing Challenges, Approaches, and Distribution

- assess the challenges facing a business that wants to market a product internationally;
- compare the approaches taken by various companies to market their products internationally;
- demonstrate an understanding of the logistics of, and challenges associated with, distribution to local, national, and international markets.

### Working in International Markets

- analyse the ways in which ethical considerations affect international business decisions;
- assess the working environment in international markets;
- demonstrate an understanding of the process for crossing international borders as it relates to international business.

## 4 Units of Study

This course is divided into two parts consistent with an open system approach to studying business organisations. The Former examines the features and forces, especially cultural and economic, of the international environment that influence business organisations; the latter examines how a business organisation is organised and the processes it adopts relative to the demands of an international environment as opposed to a local environment.

It consists of the following units of study:

### Part 1: The External Environment

1	mapping transnational environments and relations	8 hours
2	mapping transnational business	10 hours
3	transnational business research	10 hours
4	cultural forces	12 hours
5	political forces	12 hours
6	economic forces	10 hours
7	competitiveness and transnational forces	10 hours

### Part 2: The Internal Environment

8	transnational management and leadership	10 hours
9	transnational sales and marketing	10 hours
10	transnational production	10 hours

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11	transnational workforce	8 hours
	Approximate total	<hr style="width: 50%; margin: 0 auto;"/> 110 hours (inclusive of assessment)

### 5 Teaching and Learning Strategies

Learner-centred learning methods that include oral presentations with questions from peers; class discussions; written calculations and exercises; current issues analyses; interaction with guest speakers and people from the business world; assigned readings; lectures; and research into business practice. Part of this work is the Independent Study Unit [ISU] essays – part 1 (research proposal), part 2 (literature review, research strategies and methods), part 3 (findings, discussion and evaluation), and part 4 that involves a class presentation, which is guided periodically by the instructor.

### 6 Assessment and Evaluation Methods

Assessment of student learning considers the Achievement Chart, Grades 11 and 12, Business Studies in terms of Knowledge & Understanding, Thinking & Inquiry, Communication, and Application. Students' academic skills are assessed on a continuous basis by means of a grid that reflects the Achievement Levels (1 - 4) of the Ontario Program Planning & Assessment document. Evaluation methods during the formative term work include written commentaries; essays; oral presentations; business environment analysis; and business research. Evaluation for the final examination includes a choice of essays and a business case study. Grades are communicated within a week of assessment. The term work accounting for 70% of the final grade reflects the students' most consistent level of achievement throughout the course, with special consideration given to the more recent evidence of achievement.

### 7 Assessment and Evaluation Policies

Formative Term Work	50%
Independent Study Unit	20%
Final exam:	<u>30%</u>
TOTAL	100%

The Final Summary Examination assesses the following skills: Knowledge (18%); Thinking (23%); Communication (32%); Application (27%).

### 8 Printed Indicative Texts

Ball, Donald et al. (2004), *International Business: the Challenge of Global Competition*, 10<sup>th</sup> edition, New York: McGraw-Hill.

Zamaros, Panayotis (2006), *Transnational Business Analysis – Workbook*, 2<sup>nd</sup> ed., Lausanne: P. Zamaros

## Course outline

### 9 Printed Resource Materials

Schulz, Mike et al. (2003), *International Business: Canada and Global Trade*, Toronto: Nelson.  
Readings from important business textbooks (TBA Readings)  
Articles and readings (NJC Network)  
Textbooks from the class library  
'The Economist'

### 10 Electronic Resource Materials

E-Business Magazine – <http://www.hp.com/Ebusiness>  
Globe and Mail – <http://www.theglobeandmail.com>  
Maclean's Magazine – <http://www.macleans.ca>  
Marketing Magazine – <http://www.marketingmag.ca>  
Strategy Magazine – <http://www.strategymag.com/>  
Report on Business Magazine – <http://robmagazine.com>  
The National Post – <http://www.nationalpost.com/>  
The New York Times – <http://www.nytimes.com>  
The Toronto Star – <http://www.thestar.com>

In addition, those proposed in the textbook.

### 11 Technology Integration

Students are encouraged to make extensive use of the internet regarding international businesses and current issues, in addition to using information technology (Word, Excel, and PowerPoint) for the purpose of preparing and presenting both written and verbal work.

### 12 Travel Component Integration

The ISU integrates the various destinations visited as it is required that students expand a business in such places.

**UNIT 1**  
**Mapping transnational environments and relations**

## Unit 1

### 2. Transnational environments 1: principles for distinction

The aim of this session is to

- Explore the “machine theory” of organizations.
- Explore the “open systems theory” of organizations.
- Explore differences between the two theories.
- Identify criteria for comparing theories.
- Read a business text.
- Enhance teamwork.

*Class to have pre-read Reading 1 to carry out the activities*

- 1 Hanna (1988) gives an account of the change in organizational thinking – paradigmatic shift - from the machine theory<sup>1</sup> to an open systems theory<sup>2</sup> for describing (i.e. modeling) businesses.
- 2 The features of the machine theory include (Hanna, 1988):
  - Task specialization: reducing tasks to their smallest component.
  - Task standardization: repetition of tasks.
  - Decision-taking centralization: decisions taken by top management only; orders communicated through official channels.
  - Policy uniformization: all parts of the system are treated in the same manner.
  - Task non-duplication: focusing on that which one is employed for.
- 3 The features of the open systems theory include (Hanna, 1988):
  - Components: a boundary dividing the internal from the external environments.
  - Processes: acquiring and bringing inputs; creating and offering outputs; transformation of inputs into outputs.
  - Aims: its own existence; acquiring inputs for its own existence and for the outputs to be created.

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<sup>1</sup> This is also known as ‘Fordism’ or ‘Taylorism’ or even ‘scientific management’.

<sup>2</sup> This is also known as ‘cybernetic theory’ and at times, in its more radical accounts, referred to as ‘post-Fordism’.

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- 4 Activity 1: in what ways is the open systems theory different from the machine theory? (discuss with peer to present differences)

Differences:

- 5 Activity 2: having compared the two theories or models for describing business organizations, what criteria were in use for making this comparison? (present criteria)

Criteria:

- 6 Activity 3: what are the possible advantages of the open systems theory? (discuss with peer to present advantages)

Advantages:

- 7 Activity 4: what are the possible (conceptual) difficulties with the open systems theory? What does it neglect?

Drawbacks:

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- 8 Activity 5: list out examples of the internal-external environment divide and each time qualify the border of differentiation (discuss with peer to present examples)

Examples:

Reference:

HANNA, DAVID (1988), *Designing Organizations for High Performance*, Addison-Wesley.

### 3. Transnational environments 2: distinctions and definitions<sup>3</sup>

The aim of this session is to

- Explore types of environments.
- Discuss the features of the external environment.
- Discuss transnational relations and their dynamics.
- Account for polarity.
- Discuss issues with examples.

#### A Type of Environments

1 According to Hanna (1988) organizations are open systems in that they depend to some extent on their environment or context to carry out their activities (*see session 1*). It follows that we can distinguish between the

- Internal environment, that within the organization, where the transformation process of inputs into outputs takes place.  
Example: business organization
- External environment, the context where the organization finds the resources to be transformed within the organization and where the outputs are made available.  
Example: cultural environment of a business organization

2 In drawing the distinction between controllable and uncontrollable forces (i.e. competitive, distributive, economic, social, financial, legal, physical, political, cultural, labor, and technological) Ball et al. (2004) define in a similar manner<sup>4</sup>:

- Domestic environment (DE), where uncontrollable forces originate from the home nation-state.  
Example: Canada
- Foreign environment (FE), where uncontrollable forces originate from foreign nation-states.  
Example: North America; NAFTA legal context

#### B Features of the External Environment

3 In the external environment one finds an array of other organizations and individuals which all together can influence to a relative degree the business organization in question, not only in its transforming ability but also in its ability to find resources and consumers for its outputs.

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<sup>3</sup> Material in this section extracted from W&SU Topical Paper: *Global Environments* © 2000 Panayotis Zamaros.

<sup>4</sup> In a similar manner economists often distinguish between the domestic economy (DE) and the foreign economy (FE).

## Unit 1

4 Depending then on the source of the influence (Worthington & Britton, 1997), we can distinguish between:

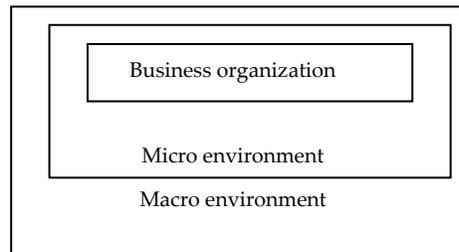
- The immediate environment, or micro-environment, when the source of influence is specific and in a direct interrelationship with a business organization, that is, suppliers, competitors, labor markets, financial institutions, customers, trading organizations, and trade unions.

Example: a tea-room at Neuchatel relative to its customers, suppliers of tea, bread sugar etc., the banks, hospitality association.

- The contextual environment, or macro-environment, where the source of influence is general and in an indirect interrelationship with a business organization, that is, the economic, political, socio-cultural, technological and legal milieus.

Example: political decisions made in Bern or Brussels impact on a tea-room at Neuchatel.

This distinction can be illustrated as follows:

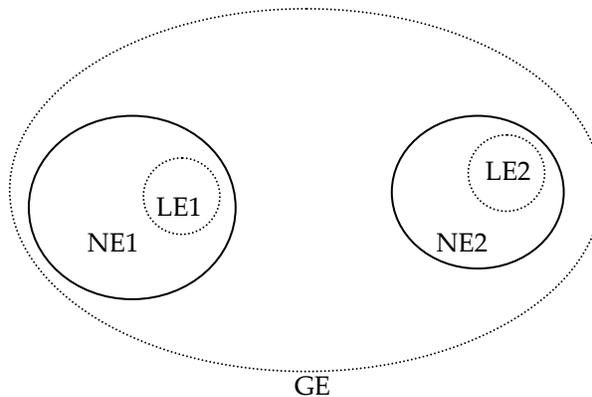


5 The above shows that the macro environment being more general and indirect has a greater scope of influence than the microenvironment, and arguably may be more difficult to control. And this is the case because in the macro environment the price and quantity factors are absent. This is not the case in the microenvironment where the business purchases its inputs and sells its outputs: price and quantity have a direct and visible effect.

6 It follows that a (global or international or) transnational environment is a blend of both micro and macro environments within whether the domestic or foreign environments, where a business activity may be influenced by both a domestic force and a force that originates in the foreign environment (*definition 1*).

### C Local, National and Global Environments

7 Another way to conceptualize the external environments a business organization belongs to is to take into account the types of relationships found in a permeable geographical space in relation to the nation-state as illustrated:



Here the following distinctions can be made:

- The intra-national environment or local environment (LE): the set of relationships within a space whose border is smaller than that of the nation-state.  
Example: Toronto
- The national environment (NE): the set of relationships within a space whose border is that of the nation-state.  
Example: Canada
- The inter-national environment or global environment (GE): the set of relationships within a space whose border is larger than that of the nation-state.  
Example: the EU

It is worth noting that in the first and last case the border is conceptual rather than physical that is the case with the nation-state.

- 8 In other words, a (global or international or) transnational environment is that which encompasses all those relationships, interactions and organizations that cut across nation-states, creating linkages between different national societies, and which may have deliberate or unintended consequences (*definition 2*).
- 9 Given definitions 1 and 2, a comprehensive definition of the transnational environment is that proposed by Ball et al (2004: 18): ‘the interactions (1) between the domestic environmental forces and the foreign environmental forces and (2) between the foreign environmental forces ... that involves the crossing of national borders’.

#### D Trans-National Relations

- 10 To talk of trans-national relations and interactions is to describe the increasingly visible flow of goods, ideas, knowledge, people, finance, professional services, crime, pollution and so forth, which cut across territorial boundaries. Such relations involve:
  - The interaction of states as trans-governmental relations as networks of direct contacts between departments within different national governments.

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- The interaction of any social aspect of society, as trans-social relations.

11 Trans-national relations are characterized by the presence of:

- Governmental trans-national organizations – GOs - as they provide a forum within which bureaucratic contacts and networks are cultivated and strengthened.  
Examples: IMF, World Bank, World Economic Forum, and sections of the UN.
- Non-governmental trans-national organizations – NGOs - which are non-governmental bodies operating across national boundaries, at times on a global scale and which seek as far as possible to disregard these boundaries (Bull, 1997).  
Examples: Red Cross, Oxfam, UEFA, IOC.
- Corporations – MNCs – which are large business organizations whose activities span across national borders.  
Examples: Nestlé, Microsoft, Bombardier, ICI etc.

### E Paradigms on Border Variability: The Polar Approach

12 The polar approach emphasizes the concentration of power in particular loci around the globe defining zones of influence and thus an international order. In using Huntington (1996), we have the following the paradigms:

- Multipolar World: the basic tenet is that with the fall of the Berlin Wall (CE 1989) there are many poles of influence and according to Huntington (1996) their center coincides with a specific civilization extending over a number of nation-states.
- Bipolar World: a bipolar power relationship emphasizes a one-to-one relationship among nation-states or the divide of the world between the North and the South.
- Unipolar World: following Fukuyama's argument that the end of the Cold War meant the end of ideological strife giving way to the *universalization* of liberal democracy (the end of history argument), there are no longer any zones of influence. There is therefore one world that has been shaped in a similar way.
- A-Polar World: this view emphasizes the primacy of the nation-state and that relations among states are messy. The nation-state therefore seeks to maximize its chances for survival by controlling its border of differentiation according to its needs. There is therefore, no international order.

#### Reference:

- BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.  
BULL, HEDLEY (1997), *The Anarchical Society*, London: Macmillan  
HANNA, DAVID (1988), *Designing Organizations for High Performance*, New York: Addison-Wesley.  
HUNTINGTON, SAMUEL. (1996), *The Clash of Civilizations and the Remaking of World Order*, New York: Simon & Schuster.  
WORTHINGTON, I. & BRITTON, C. (1997), *The Business Environment*, London: Pitman.

#### 4. Transnational relations 1: power and interdependence

The aim of this session is to

- Explore the dynamics of transnational relations.
- Explore “power”.
- Explore “self-sufficiency”.
- Give a dynamic conceptualization of “power”.
- Explain the growth in transnational business.
- Discuss issues with examples.
- Carry out internet research.

*Class to carry out the relevant activities*

- 1 Typical conceptualizations of environments (*see session 3*) tend to be static: we therefore need to set them in movement, thus emphasize their dynamic component. In using the open system perspective, we can observe two phenomena:
  - The tightening of relations, which means that nation-states have very permeable borders of differentiation which leads to the creation of coalitions  
Example: the European Union.
  - The loosening of relations, which means that nation-states have borders of differentiation that are the least permeable leading to isolationism  
Example: Cuba or North Korea as extreme cases.
- 2 In other words, it is control over the border of differentiation that dictates the following:
  - The type of relations between nation-states.
  - The type of business and economic relations across nation-states.
  - The types of goods and services that can be exchanged
- 3 Arguably, that which determines variability in the border of differentiation is the self-perception and other- perception of power. Nation-states that perceive to have the power to influence their external environment seek to build relationships in their favor so long as the other nation-states equally perceive to have the power for the same or similar reason. In the contrary, and if they perceive the external environment to be a threat or to impinge on their internal environment or for ideological reasons, they seek to conduct isolationist policies.
- 4 Power can be seen as the capability to intervene in a given set of events so as to alter them in some way (Giddens, 1987). The emphasis here is not so much on the outcome of power, or its application, but on the capability which is the attribute of an international actor, and which results from the structure of the nation-state with its particular patterns of authority, decision-making processes and legal content.
- 5 An instance of such a view is self-sufficiency (Schultz et al., 2003), which refers to the ability a nation-state has to produce, distribute and consume all the commodities relative to its needs

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without any external influence. Another is self-preservation, or the (political, military, legal) efforts made by the nation-state to maintain its territory intact, by closing the border of differentiation, when faced with external threats.

6 Activity 1: give an account of possible sources of power (research into and describe the various sources of power)

7 Activity 2: establish how nation-states react relative to threats (epidemics, terror) and this affects relations between nation-states and business relations in particular (research and briefly describe findings)

6 But given that in an international context there is exchange, the capability of an actor to influence the unfolding of events is not only a function of the self-perception of power, but also a function of the other-perception of power (Rosenau, 1980). It follows that power is relational and this is what determines the variability of the border of differentiation in that it creates power asymmetries.

7 Although the static approaches are useful to order transnational relations, they omit to account for ambiguity and uncertainty in these relations, let alone that they evolve slowly in time. Therefore power is diffuse and impossible to locate anywhere<sup>5</sup>, not even within the border of the nation-state since despite of how well this border is kept closed; the nation-state cannot ignore the pressure exercised on it from within and without.

8 In other words, although a nation-state could be seen to be self-sufficient relative to its basic needs (i.e. life-sustaining necessities) increased pressure from within the nation state (i.e. the demand for commodities produced abroad and the scarcity of domestic resources relative to the commodities to be produced) and without the nation-state (i.e. the supply of scarce resources and the demand for commodities not produced domestically) bring about a dependence on foreign environments, which is mutual (but not always or necessarily symmetric).

9 Therefore, within interdependence (Schultz et al., 2003), transnational relations are to be viewed as a set of complex interactions where the nature and effectiveness of power varies

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<sup>5</sup> This finding is consistent with the 'open systems theory'.

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according to not only the issue at stake but also the other issues and priorities related to this issue inclusive of the (power) resources and inducements at play.

- 10 It follows that the key feature of interdependence is change which involves change in economic processes caused by technological development, the overall world power structure and its distribution, the power structure within issue areas according to the disposition of resources, and the power capabilities as affected by international organizations.

### Reference:

GIDDENS, ANTHONY (1987), *The Nation-State and Violence*, Polity Press.

ROSENEAU, J. (1980), *The Study of Global Interdependence*, Frances Pinter.

SCHULTZ, MIKE et al. (2003), *International Business: Canada and Global Trade*, Toronto: Nelson.

## 5. Transnational relations 2: interdependence and its effects

The aim of this session is to

- Assess the effect of interdependent transnational relations.
- Assess the effect of transnational relations on interdependence.
- Discuss issues with examples.

1 Considering interdependent translational relations and in particular transnational business, such mutual dependence has a number of advantages (Schultz et al., 2003) that include:

- Meeting needs: it enables knowledge of needs to shape production.  
Example: consumer survey have helped Carrefour streamline offer.
- Creating jobs: transfer of capital and knowledge coupled with enterprise and innovation in addition to the internationalization of business creates jobs.  
Example: know-how flight to P. R. China.
- Attracting investment: improved infrastructure and the opportunity for business growth (profit maximization / cost minimization) direct capital investment and venture creation.  
Example: Thomson, French Electronics Company, investing in new factories in Thailand.
- Creating new technology and materials: capital, labor and enterprise are factors of production: there is novel capital in addition to capital replacement.  
Example: telecoms investing in mobile technology, then wap, and lately wifi.
- Diversifying products and services: venture creation brings about increased offers of commodities hence of businesses.  
Example: supermarkets offer a range of products to cater for various styles of cuisine.

2 At the same time there seem to be a number of drawbacks (Schultz et al., 2003):

- Supporting non-democratic political systems: capital flow and production has no frontier.  
Example: investing in Burma.
- Upsetting cultural identities: the need for capital creation and use, the presence of firms change the urban setting hence the ways of doing and thinking.  
Example: switching from traditional Japanese cuisine for fast food; or giving traditional Japanese cuisine a fast food logic and appeal.
- Upsetting social welfare: changed social conditions means greater need for social capital.  
Example: introduction of national pension scheme in Thailand in 2004.
- Causing environmental issues: difference in priority relative to environmental concerns as pollution has no frontier.  
Example: differing regulations to curb pollution effects in the US and EU.

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- Triggering political strife: resource differences may bring about security problems.  
Example: middle-eastern nation states.
- 3 But if interdependence is not only a description (among others) of how transnational relations (possibly) are, as a 'paradigm', to use Kuhn (1962), it is exemplar. It is, in other words, an ideal to be pursued as it denotes transnational relations based on free market principles and imperatives.
- 4 In this case, the following are possible barriers to interdependence (Schultz et al., 2003):
- Tariffs: the ability to slap a tax or a tariff gives nation-states a political and economic weapon to further their interests.  
Example: imports from the UK to the US.
  - Currency fluctuations: devaluations hurt the economy concerned and bring about inflation.  
Example: EU deficit.
  - Investment regulations: regulating the financial markets decreases attractiveness for investment:  
Counter-example: abolition of Swiss federal stamp on stocks.
  - Environmental restrictions: restrictions to combat pollution increase costs and bring production in directions that do not satisfy consumer wants and needs.  
Example: US and Kyoto agreement.
  - Trade sanctions: an economic and political weapon of nation-states; role of the WTO.  
Example: banana wars.
  - Safety regulations: change production.  
Example: automotive components in Switzerland and the EU.
  - Immigration policies: tightening implies labor and wage difficulties for some industries.  
Example: tourism and hospitality industry in Switzerland.
- 5 At the same time, the enablers of interdependent transnational relations and in particular transnational business include:
- Democratic participation: increased participation of the society in the decision-making processes has meant a greater control over the economic and financial destinies of nation-states.  
Example: votes over budgets and resource allocation.
  - International negotiation: increased role of GOs and NGOs in the lowering of trade barriers.  
Example: cause for concern over security equipment used in airports.

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- Consumer needs: change in patterns of consumption and buying manners.  
Example: purchasing food not only relative to local cuisine but also cuisines from other cultures.
- Information exchange: growth in media.  
Example: growth in free newspapers.
- Technologies of production: increased productivity, decreased production time, flexibility and quality.  
Example: the application of quality standards set out by the ISO for leaner production
- Management technologies: scientific approach to management.  
Example: the growth in MBA executives has changed the way to view organizations.

### Reference:

KUHN, THOMAS (1962), *The Structure of Scientific Revolutions*, Chicago: University of Chicago Press.

SCHULTZ, MIKE et al. (2003), *International Business: Canada and Global Trade*, Toronto: Nelson.

**UNIT 2**  
**Mapping transnational business**

## 6. Transnational business 1: aspects and evolution

The aim of this session is to

- Explore aspects of transnational business.
- Explore evolution of transnational business.
- Account for the factors at play.
- Read quantitative data.

*Class to be divided in four teams to carry out the relevant activities*

### A Aspects

- 1 Key aspects (relations) of transnational business (Ball et al. 2004; Schultz et al. 2003) include trade and foreign investment.
- 2 Main aspects that characterize trade (Schultz et al. 2003):
  - Imports: the flow of goods from the foreign environment (FE) to the domestic environment (DE) to satisfy the needs of domestic consumers.  
Example: scotch whiskey into Canada.
  - Exports: the flow of goods from the DE to the FE to fulfill the needs of consumers in the FE<sup>1</sup>.  
Example: Canadian timber towards the US.
  - Licensing: authorization to use assets to produce commodities in another country.  
Example: the production of electronic components.
- 3 These are facilitated through trade missions (aimed at facilitating knowledge for the foreign economy in terms of the administrative requirements of tariffs and quotes, health and safety policies), and trade shows (aimed at showing what an economy does and can produce per industry; they are an opportunity and incentive for importers to select products of their interest).  
Example: Palexpo in Geneva hosts about 40 trade shows, incentives and other events a year that promote Swiss products but also products of other nation-states to Swiss consumers.
- 4 Note that exporting requires:
  - Undergoing an administrative process to get a license.
  - Making arrangements for transportation.
  - Having established sales points.

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<sup>1</sup> Note that relative to the exporting economy we speak of net exports  $X = E - I$ , which is a measure of growth in the Keynesian model.

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5 Main aspects characterizing foreign investments (Ball et al. 2004; Schultz et al. 2003):

- Foreign direct investment (FDI): investment in subsidiaries or joint ventures.  
Example: opening up a Nestle factory in South Africa.
- Portfolio investments (PI): purchasing stocks of share in the stock markets (bourses).  
Example: purchasing Nestle shares in the CAC 40 (French stockmarket).

### B Evolution

6 Activity 1 (team 1): in what way has trade evolved the last 20 years? (examine relevant tables to comment on trade evolution)

Trade evolution:

7 Activity 2 (team 2): what is the direction of trade? (examine relevant tables to comment on the direction of trade)

Direction of trade:

8 Activity 3 (team 3): in what way has foreign investment evolved the last 20 years? (examine relevant tables to comment on foreign investment evolution)

Foreign investment evolution:

## Unit 2

- 9 Activity 4 (team 4): what is the direction of foreign investment? (examine relevant tables to comment on the direction of foreign investment)

Direction of foreign investment:

### Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.  
SCHULTZ, MIKE et al. (2003), *International Business: Canada and Global Trade*, Toronto: Nelson.



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- Increased sales: profit maximization rationale.  
Challenges for the firm: consumer values and cultural sensitivities.
- Controlled expenditure: cost minimization rationale: reducing variable (foreign workforce) or fixed costs (new plant).  
Challenges for the firm: outsourcing and domestic reaction; new costs.
- Diversification: marketing strategy rationale: increasing the range of products available through mergers and acquisitions.  
Challenges for the firm: social pressure.
- Competitiveness: marketing strategy rationale: defending and protecting business.  
Challenges for the firm: expenditure for innovation.

5 Additional factors that may be at play include (Schultz et al. 2003):

- Innovation in technology: firm can take advantage of internet for its own communication; internet as a sales medium.  
Example: Nespresso have been among the first to use the internet to promote its products.
- Development of transportation: ship, rail, truck, air-cargo, pipelines; faster and reliable communication means ensure products are delivered on time.  
Example: Greek products arrive into Italy 12 hours earlier than before due to quicker ferries.
- Lower restrictions: lowering of tariffs and quotas; facilitated agreements and negotiations.  
Example: WTO agreements have boosted wine imports in Switzerland.
- Business confidence: reduced transnational financial risks; growth in international agreements and law.  
Example: political stability and policy commitment enhance business deals.

6 Global competition may also explain growth in transnational business in two ways:

- Static approach: competition is characterized by short run market relations wherein a firm sells and competes in the terms that the market structure dictates.
- Dynamic approach (Schumpeter, Hayek): competition is characterized long run market relations where there is mutual adjustment between market structure and the behavior of the business organization.

Reference:

SCHULTZ, MIKE et al. (2003), *International Business: Canada and Global Trade*, Toronto: Nelson.  
WOOD, MICHAEL (1992), *Legacy*, New York: Sterling Publishing.

## 8. Transnational business 3: capitalizing on opportunities & realizing ideas 1

The aim of this session is to

- Explore the difference between business “idea” and business “opportunity”.
- Explore “innovation”.
- Establish the features characterizing innovative firms.
- Explore “enterprise” and “entrepreneurship”.
- Explore “global mindset”.
- Discuss issues with examples.

### A Opportunity & idea

- 1 There is a difference between business idea and business opportunity in that a business idea may not be an opportunity. Hence a business idea refers to that which is planned or aimed at (as indented) whereas an opportunity to that which enables a business to survive (even if the idea is not that original).
- 2 Therefore, it is more important to identify opportunities than having ideas that are not workable because there are few opportunities for exploring the idea further.

### B Innovation

- 3 The key attribute that enables a business organization to realize an idea and capitalize on opportunities simultaneously is innovation.
- 4 Features of innovative business organizations include (Schultz et al. 2003):
  - Creative and high-caliber employees.
  - A clearly-laid out mission statement.
  - Effective strategic planning.
  - Innovation is expected.
  - Willing to take risks.
  - Enhanced teamwork.
  - Welcoming and rewarding novelty.
  - Creating synergies.
  - Adapting organizational culture (it way of doing and thinking) to new environments.

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5 The innovation process includes (Schultz et al. 2003):

- Idea creation: new knowledge construction and concept / product creation.
- Initial experimentation: testing the concept / product.
- Feasibility determination: establishing the financial value: cost-benefit analysis.
- Final application: production, distribution and sales.

### C Enterprise

6 If enterprise is a quality displayed as behavior denoting creativity and innovation, entrepreneurship is a process aimed at the realization of new ideas and the capitalization of opportunities based on enterprise.

7 Entrepreneurs develop a global mindset through being:

- Being open to ideas.
- Being sensitive to cultural differences.
- Viewing market as a source of ideas.
- Leading others in discovering opportunities.
- Respecting customers regardless of their origin.
- Being thorough when carrying out studies and research.
- Striving for constructing a global identity.
- Employing a worldwide selection of workers.

8 In addition, entrepreneurs are able to identify policy implementation gaps and deficiencies; they are also able to devise strategies to overcome such difficulties (Olson, 1985).

9 Such abilities have been standardized in human resource management manuals and other training schemes such as National Research Council of Canada (NRC) Entrepreneurship Program, that place an emphasis on:

- Achievement / Results Orientation: Focusing efforts on achieving excellent work outcomes consistent with the NRC vision.
- Initiative / Perseverance: Anticipating and dealing with problems and issues in a persistent manner; seizing opportunities that arise and going beyond what is expected

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- Continuous Learning & Self-development: Assessing strengths and weaknesses and engaging in ongoing self-development and improvement.
- Self-confidence: Possessing a realistic confidence in one's abilities.
- Networking: Cultivating a network of contacts as sources of information, advice and support.
- Communication / Impact and Influence: Gaining support from others for ideas, proposals and solutions through effective communication and action.
- Interpersonal Relations: Interacting effectively with others, maintaining relationships and producing win-win results among people.
- Teamwork / Team Building: Building, leading and working effectively within work teams.
- Business Understanding / Client Focus: Setting direction and operating in keeping with an understanding of the industry or economic sector; focusing efforts on bringing value to the customer.

### 9 Three models for entrepreneurship (Schultz et al. 2003):

- Free market model: emphasis on minimal government intervention to provide incentives for enterprising behavior.
- Guided individualism: behavior: emphasis on public policy to influence the direction of entrepreneurial activity.
- Social democratic model: emphasis on government-generated framework wherein entrepreneurship can flourish.

#### Reference:

OLSON, PHILIP (1985), 'Entrepreneurship: Process and Abilities', *American Journal of Small Business*, pp25-31  
SCHULTZ, MIKE et al. (2003), *International Business: Canada and Global Trade*, Toronto: Nelson.  
NRC ENTREPRENEURSHIP COMPETENCIES.

## Unit 2

### 9. Transnational business 4: capitalizing on opportunities & realizing ideas 2

The aim of this session is to

- Establish key questions to capitalize on opportunities.
- Establish key questions to realize ideas.
- Establish way for identifying business opportunities.
- *Apply brainstorming techniques.*

*Class to be divided in three teams to carry out the relevant activities*

- 1 Activity 1 (team 1): what key questions should a business organization pose to capitalize on “opportunities”? (brainstorm ideas to write out such questions)

Capitalizing on opportunities:

- 2 Activity 2 (team 2): what key questions should a business organization pose to realize an “idea”? (brainstorm ideas to write out such questions)

Realizing an idea:

- 3 Activity 3 (team 3): by what means can business organizations identify business opportunities? (brainstorm ideas to write out such questions)

Identifying opportunities:

## 10. Mapping transnational trends 1

The aim of this session is to

- Explore transnational trends.
- Prepare and make formal presentations.

*Class to be divided in three teams to carry out the relevant activities*

1 Main (contemporary) transnational trends include the internationalization of workforce, transnational competition, improvements in technology and infrastructure, regionalization and the growing importance of regions, growth in local, regional and transnational consumption, and the decreased influence of governments (Schultz et al. 2003).

2 Activity 1 (team 1): what are the main features characterizing transnational workforce (trend 1; Schultz et al. 2003: 194-195)? (use reading 7, research and prepare to make formal presentation)

Features:

3 Activity 2 (team 2): what are the main features characterizing transnational competition (trend 2; Schultz et al. 2003: 195-196)? (use reading 7, research and prepare to make formal presentation)

Features:

4 Activity 3 (team 3): What are the main features characterizing convergence in transnational technology and infrastructure (trend 3; Schultz et al. 2003: 197-198)? (use reading 7, research and prepare to make formal presentation)

Features:

Reference:

SCHULTZ, MIKE et al. (2003), *International Business: Canada and Global Trade*, Toronto: Nelson.

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### 11. Mapping transnational trends 2

The aim of this session is to

- Explore transnational trends.
- *Prepare and make formal presentations.*

*Class to be divided in three teams to carry out the relevant activities*

- 1 Activity 1 (team 1): what are the main features characterizing regionalization and the growth of Asian markets (trend 4; Schultz et al. 2003: 199-200)? (use reading 7, research and prepare to make formal presentation)

Features:

- 2 Activity 2 (team 2): what are the main features characterizing transnational consumption and culture (trend 5; Schultz et al. 2003: 202-203)? (use reading 7, research and prepare to make formal presentation)

Features:

- 3 Activity 3 (team 3): what are the main features characterizing the relation between corporations and nation-states (trend 6; Schultz et al. 2003: 202-203)? (use reading 7, research and prepare to make formal presentation)

Features:

Reference:

SCHULTZ, MIKE et al. (2003), *International Business: Canada and Global Trade*, Toronto: Nelson.

## **UNIT 3**

### **Transnational business research**

## 12. Transnational business research 1: strategies<sup>1</sup>

The aim of this session is to

- Explore evaluation.
- Explore survey.
- Explore case study.
- Explore action research.

1 In general, research methodology includes:

- Strategy: that which the researcher aims at doing (what).
- Method: the manner of process the researcher applies (how).

### A Strategy 1: evaluation

2 Evaluation is the process of systematically collecting and analyzing information to form value judgments based on the evidence collected relative to a set of predetermined criteria<sup>2</sup>.

3 Evaluation is used for the following purposes:

- Accountability: to prove the quality of a process<sup>3</sup>.  
Example: to show that the process of staff selection is effective in identifying to a large extent the employee that best fits a position.
- Development: to improve the quality of a process.  
Example: to show a number of deficiencies in the selection process in identifying the employee that best fits a position.

4 As there is the tendency to evaluate on the basis of experience or of a hunch, a more systematic approach to evaluation is likely to yield data that can be analyzed or used as a benchmark. This means that evaluation needs to be planned to include:

- Specific target areas to be evaluated.
- Specific performance indicators in relation to the targeted areas.
- Agreed time scales.

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<sup>1</sup> Material in this section extracted from W&SU Topical Paper: *Research Strategies* © 2000 Panayotis Zamaros.

<sup>2</sup> Evaluation is different from monitoring and reviewing in that the former refers to collecting and presenting information in relation to specified objectives whereas the latter is a reflection on progress, using evaluation data to inform decisions in all planning processes.

<sup>3</sup> In a more formal manner, evaluation takes the form of auditing aimed at checking whether current practice corresponds to generally accepted or set standards. Auditing includes fiscal audits (financial issues), operational audits (procedural issues), investigative audits (fraud or security issues), and ethnographic audits (people and culture related issues).

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- Clear lines of accountability (i.e. who does what).
  - Evaluation questions that are directly linked to the objectives.
- 5 Evaluation need not only be about carrying out only formal research. It can take place in a day-to-day working context and is to a large extent one of the duties of managers as it forms an integral part of the fundamental management process that includes:
- Planning: evaluation is an important tool for determining priorities (whether short-term, long-range or strategic) as it enables to establish data pertaining to the current situation and formulate improvements to be brought about in development plans.
  - Implementing: during the implementation of the development plans evaluation is also used as a monitoring tool to yield data so as to construct a picture of the evolution of the implementation.
  - Reviewing: data collected from evaluation is examined and value judgments are made as per the extent to which the development aims and objectives have been achieved; the process of evaluation is equally assessed to determine whether it has helped or, on the contrary, upset the achievement of development aims and objectives.
- 6 Whether for formal research or everyday management, the following practical tips can be applied when using evaluation:
- Limit evaluation to a few specific focuses: achieve short-term objectives since evaluation is concerned with improving or maintaining quality on a short-term basis.
  - Collect only the information that is directly related to these focuses: discard any other data as it may upset data analysis and bias findings and therefore cause.
  - Maximize the information at hand: use existing data before engaging into further research.
  - Keep the research process simple and accessible: its aims, objectives and ways to collect data should be easily understood by others.
  - Make it credible: show the importance of the research and its benefits.

### B Strategy 2: survey

- 7 Survey is the process of systematically collecting and analyzing information with the purpose of obtaining information on events and phenomena that are not easily or directly observed or at times accessible by the researcher. They are equally used for constructing general views and opinions on topics and issues. Surveys therefore aim at:
- Investigating *past and future phenomena* but *not* the actual unfolding of events – this is the aim of observation.

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- Describing the nature of existing conditions, identifying standards against existing conditions and determining the relationships that exist between specific events.
- 8 Following Remenyi et al. (1998), on having clearly defined the problem to be investigated and identified the population and sample to carry out the survey, one needs to:
- Revise the survey: draft the survey, that is, establish the types of questions to be asked, the layout, and measurement scales.
  - Pilot the survey: test it for validity<sup>4</sup> and reliability<sup>5</sup> before its actual administration.
  - Revise the survey: consolidate any weak points undermining its validity and reliability.
  - Administer the survey: apply it to the sample chosen.

### C Strategy 3: case study

- 9 Case study can be seen as the systematic investigation of specific real-life instances allowing an in-depth exploration of phenomena.
- 10 Further to Brotherton (1999) case studies are:
- Particularistic: focus on individual issues.
  - Descriptive: seek to explore and incorporate as many variables as possible.
  - Heuristic: generate new ways of thinking about problems.
  - Inductive: rest not on the testing of pre-established.
- 11 Case studies are often thought to be single pieces of research but multiple cases are equally possible when a single case is not sufficient to cover the issues being researched.
- 12 Specifically, single cases are used under the following instances:
- Making a critique or challenging a theory.
  - Investigating extreme, unique or rare cases.
  - Investigating previously inaccessible phenomena.

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<sup>4</sup> Validity seeks to identify whether the survey (or any other research tool) does that which it has been designed to do.

<sup>5</sup> Reliability seeks to establish the degree to which the data collected through surveying (or any other research tool) can be used to formulate answers to the research questions posed.

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- On the other hand, multiple cases are used in the following instances:
  - Verifying a theoretical conjecture.
  - Constructing a rich operational conjecture.
- 13 The following steps are suggested by Remenyi et al (1998) to ensure the production of competent case studies that avoid the above difficulties:
- Ensuring a degree of uniformity when recording evidence especially when multiple cases are used.
  - Establishing a detailed protocol detailing the aims and objectives (protocol overview), the issues to be researched (field questions), the ways to go about collecting evidence (field procedures), the audience of the case (guide to the case).
  - Using multiple sources of evidence when examining or producing one case study.
  - Creating a sound case study database from the evidence and notes collected.
  - Maintaining a chain of evidence to enable the audience follow the arguments made.

### D Strategy 4: action research

- 14 Action research is the systematic inquiry into one's own current management practice with the purpose of improving this practice and involves making value judgments based on a number of criteria that can either be set individually or by others.
- 15 The central idea is that that what matters in management is not only *what* is done but also *why* it is done (Lashley, 1999). Action research has therefore the following features:
- Considers the researcher as the object of research and involves putting oneself at the centre of one's work; this in turn involves the planned and systematic examination of one's motives and the methods for carrying out actions.
  - Is a collaborative activity that encourages others to be researchers of their own practice who, at the same time, cast a critical eye on one's own practice.
  - Involves observing first and then deducing theory.
  - Requires the continuous validation by external sources by sharing ideas, interpretations and findings with others who are able to critically judge the validity and reliability of data.

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- 16 Activity: what strategies will you be using for the ISU (i.e. how will you go about getting the necessary data to make your claim)? (reflect on your own and describe strategies with justification)

Strategies:

Reference:

BROTHERTON, BOB (1999), 'Case Study Research', pp115-142 in BOB BROTHERTON (ed.), *The Handbook of Contemporary Hospitality Management Research*, London: Wiley.

KUMAR, RUNJIT (1996), *Research Methodology: A Step-by-step Guide for Beginners*, London: Sage.

LASHLEY, C. (1999), 'Action Research', pp173-190 in BOB BROTHERTON (ed.), *The Handbook of Contemporary Hospitality Management Research*, London: Wiley.

REMENYI, DAN et al. (1998), *Doing Research in Business and Management*, London: Sage.

### 13. Transnational business research 2: methods 1 <sup>6</sup>

The aim of this session is to

- Explore questionnaires.
- Explore interviews.
- Explore telephone interviewing.

#### A Method 1: questionnaires

- 1 Questionnaire survey is about carrying out an investigation by means of questions<sup>7</sup>.
- 2 To specify the questions the following aspects are to be taken into consideration:
  - Sources of questions: questions need to be directly linked to the operationalized conjecture and the hypotheses examined<sup>8</sup>.
  - Nature of questions: questionnaires may target either fact or opinion or both<sup>9</sup>.
- 3 There are basically two types of questions (Black, 1999), namely
  - Closed which consist of
    - Recall questions aiming at calling facts, experiences, and names.
    - Convergent questions aiming at demanding predictable answers.  
Example: is it a perception of the right level of wages that leads to job satisfaction?
  - Open which consist of
    - Divergent questions aiming at generating unpredictable answers.
    - Evaluative questions aiming at the defense of justification of a choice or judgment.  
Example: which is the most important factor that leads to job satisfaction?

Note that closed questions are often factual whereas open questions seek about opinion.

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<sup>6</sup> Material in this section extracted from W&SU Topical Paper: *Research Methods* © 2000 Panayotis Zamaros.

<sup>7</sup> Questionnaires are easy to set up but are prone to a dilemma: to ensure that they are valid and reliable they need to incorporate a sufficient number of items with the risk of becoming time-consuming for the respondents thus undermining their very purpose; at the same time to ensure that they are practical and not time-consuming a few items may be incorporated again undermining their purpose; to solve this dilemma then researchers need to balance the issue of reliability with the practical aspects of questionnaire administration.

<sup>8</sup> It is important that the questions are checked by asking the question “does this question give me the information to verify or falsify the hypothesis I have stated?”

<sup>9</sup> Factual information can be elicited using a simple yes/no question; if the respondent is required to interpret a fact, hence express an opinion, a Likert scale (Sirkin, 1995) is more appropriate which consists of an ordinal response ranging from the most agreed item to the least agreed item with either 5 or 7, or even 12 subdivisions or ratings.

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- 4 Piloting questionnaires is essential as it may
- Show response overlap especially with factual questions.
  - Help sort score confusion especially with allocating weights.
  - Show the use of impossible questions when the information is inaccessible.
  - Help with breaking down complex questions into simpler ones.
  - Ease the construction of questions that are easily understood.
  - Improve the questionnaire layout to make it more appealing to respondents.
- 5 The way the questionnaire appears is a critical factor determining whether the respondent is going to fill the questionnaire in. To maximize response effectiveness, the following elements need to be considered (Black, 1999):
- Theme: making explicit the general theme, purpose, or aim of the questionnaire.
  - Appearance: using readable fonts, having a consistent positioning of response boxes, differentiating between instructions and questions.
  - Order: starting with easy questions first, ensuring the logical presentation of questions.
  - Instructions: making explicit the way respondents are required to answer to the questions; signaling ways forward and any additional information respondents need to include.
  - Automation: ensuring that the analysis of questionnaire can be completed quickly.
- Finally, do always thank the respondent for completing the questionnaire.
- 6 The aim of an effective management of questionnaires is to guarantee maximum return of the questionnaires that have been sent out. To ensure this happens, a planned distribution and return arrangement is necessary taking into account the following recommendations:
- Send questionnaires by mail if a large sample is been selected with a cover letter explaining the purpose of the survey and a S.A.E. indicating the return date.
  - Deliver personally the questionnaires if the sample is small and it is of vital importance that the survey be completed.
  - Access a convenience sample indirectly otherwise the quality of response will be low.
  - Note the arrival date of returns and count the frequency of response (i.e. number of returns per total sent).

- Create some system of identification in the form of a code since questionnaires are returned anonymously

B Method 2: interviews

7 Interviews are a survey that involves face-to-face interactions for the purpose of establishing the facts of the observed phenomena and collecting sufficient evidence to justify a hypothesis.

8 We can distinguish between the following types of interviews:

- Structured interviews have the following features:

- The interviewer asks a series of pre-established questionnaires following a tight schedule.
- The issues are explored on completion of the interview.
- The direction of the interview is determined by the questionnaire.
- Allows the interview to be under control.

- Semi-structured interviews have the following features:

- The interviewer administers a questionnaire that is loose but which retains a logical or a thematic order.
- The issues are explored within and after the completion of the interview.
- The direction of the interview is determined by the theme explored.

- Unstructured interviews have the following features:

- The interviewer administers a questionnaire that is loose.
- The issues are explored during the interview itself.
- The direction of the interview is determined by the interaction between interviewer and interviewee.

- Non-directive interviews, which are similar to unstructured types, have the following features:

- The interviewer asks questions in relation to what the interviewee has said
- Allows the interviewer to explore in-depth issues or themes
- Allows the interviewer to explore hypotheses during the interview

9 In addition to the structure, interviewers need to be aware of the mode of interview that they practice, the following:

- Acceptant: the interviewer seeks to establish trust and rapport with the interviewee for the purpose of self-analysis and reflection.
- Catalytic: the interviewer seeks to collect data about the situation while attempting to explore a shared theme.

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- Confrontational: the interviewer challenges what has been said when it is clear that a statement is untrue.
- Prescriptive: the interviewer makes suggestions in relation to the issue or theme under focus.

10 Owing to the subjective elements present in the process of interviewing there are a number of pitfalls one must be aware of:

- Interviewer bias: leading the respondent in a conscious or unconscious direction.
- Sample bias: interviewing a purposely-selected sample of interviewees.
- Hire interviews: faking answers when interviewees are reluctant to respond.
- Race bias: responding to the cultural background of the interviewee.
- Straightjacket interviews: using only yes / no format questions.
- Respondent bias: when interviewees give answers that lack depth

11 Interviewing involves a number of practical issues, the following:

- Determining the place to conduct the interview: having a comfortable place where respondents are at ease.
- Keeping the interview confidential, that is, not use it against the interests of the interviewee.
- Determining the number of respondents, that is whether the interview will be conducted individually or with a group of respondents.
- Choosing a mutually appropriate time.
- Determining whether interviewing can be use in conjunction with other research instruments.
- Using interviews to establish the validity and reliability of other research instruments.
- Piloting interview schedule to establish the validity and reliability.
- Producing transcripts of recorded interviews for content analysis.
- Getting ready before the interview by making sure that the interview is an effective research tool that will yield the needed data.

C Method 3: telephone interview

- 12 Telephone interviewing uses the same techniques as face-to-face interactive interviewing with a number of differences though. Specifically they offer clear advantages over the speed of the process and the ability to control quality over the process. However, they offer a limited channel capacity and the response rates are lower than face-to-face interviews, let alone that render difficult and at times impossible to carry out a content analysis.
- 13 Telephone interviews can be used in conjunction with other research instruments or at particular moments of the research process itself, namely:
- Helping with the identification of the sample.
  - Identifying questionnaire respondents.
  - Preparing respondents for a postal questionnaire.
  - Setting up face-to-face interviews.
  - Clarifying issues when the data collection process is nearly complete.
- 14 Activity: what methods will you be using for the ISU? (reflect on your own and describe methods with justification)

Methods:

Reference:

- BLACK, THOMAS. (1999), *Doing Quantitative Research in the Social Sciences*, London: Sage.  
SIRKIN, MARK. (1996), *Statistics for the Social Sciences*, London: Sage.

## 14. Transnational business research 3: methods 2 <sup>10</sup>

The aim of this session is to

- Explore documentary analysis.
- Explore discourse analysis of interview transcripts.
- Explore diaries.
- Explore observation as a research tool.

### A Method 4: documentary analysis

1 Documentary analysis is about examining existing documents produced by business organizations.

2 Documents may include:

- Promotional material: leaflets, prompts, brochures, prospectuses, videos, internet sites.
- Administrative material: operations plans, job descriptions, job specifications, guidelines, marketing plans, appraisal reports, communication notes and memos.
- Financial material: profit and loss accounts.
- Executive material: memoranda, agendas, speeches, diaries.

3 Documentary analysis has the following features:

- Instead of inquiring into the phenomenon directly, the researcher looks into evidence produced for another purpose and therefore does not intrude into the production of these documents (i.e. the researcher is detached from the phenomenon under inquiry).
- Since the researcher analyses documents on which there is no bearing, documentary analysis is a technique for making replicable and valid inferences.
- Since the institutional, social and cultural aspects are likely to produce witting evidence, the researcher needs to be aware of unwitting evidence, that is, the circumstances that led to the production of the document (i.e. have knowledge of constraints, omissions, connoted meanings)<sup>11</sup>.

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<sup>10</sup> Material in this section extracted from W&SU Topical Paper: *Research Methods* © 2000 Panayotis Zamaros.

<sup>11</sup> This involves content analysis, that is, the examination of either pictorial or non-pictorial texts to uncover the meaning produced in texts (i.e. linguistic analysis) and in forms (i.e. intertextual analysis).

- 4 To carry out an effective documentary analysis the following process is suggested:
- Defining the research question: making the research question explicit bearing in mind the use of documentary analysis.
  - Matching the research question to the instrument: ensuring that documentary analysis as an instrument of research can answer to the research question posed.
  - Deciding on sampling strategy: choosing randomly the documents likely to yield the data sought after and especially constructing probability samples<sup>12</sup>.
  - Constructing categories for analysis: constructing categories for analysis involves identifying a number of lead or key words to help one with analyzing the document such as the subject matter, values, goals, methods, traits, actors and so forth.
  - Defining the context: examining the context in which the documentary analysis is to take place to uncover unwitting aspects.
  - Testing the coding: assessing the extent to which the categories definitions are operationalized in addition to assessing their reliability.

### B Method 5: diaries

- 5 Diaries or log-keeping is about recording in a systematic and chronological order impressions and thoughts on a particular issue.
- 6 Diaries, in particular, aim at
- Making the researcher aware of the different aspects of research (i.e. are used as a feedback tool).
  - Providing clues on learning through research.
  - Achieving research aims and objectives.
- 7 Despite their self-oriented character, following Symon (1998), diaries are a valid and reliable source of evidence:
- They are valid because under the logic of action analysis the findings made on oneself may be either communicated to others or not. In the former case, the researcher analyses a phenomenon recounted by others; the researcher is thus removed from the phenomenon under analysis. In the latter case, the researcher analyses a phenomenon that is past in time from a perspective that is current; the time difference removes the researcher from the phenomenon under inquiry.

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<sup>12</sup> Non probability samples are to be avoided unless the nature of research is such that they are unavoidable as is the case with administrative or executive documents.

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- They are moreover reliable as they cannot be contested.

Note that one cannot generalize from the issues analyzed in one single diary; one can simply establish possible patterns and hypotheses. These may be generalized when a sample of diaries is analyzed.

8 To analyze a phenomenon, two viewpoints are adopted:

- To record a phenomenon or even; the following questions may be posed:

- What did I do?
- What did others do?
- What were the outcomes?

- To analyze a logged event or phenomenon; the following questions may be posed:

- What are the main features I have chosen to highlight?
- What the omissions?
- What does this say about my own concerns?
- What alternative accounts could be given of the same incident?
- What interpretations of what happened are explicit or implicit in my account?
- What alternative interpretations might be available?
- What were my feelings about this incident?
- In what ways did they influence my actions?
- How might I engage differently in this incident?
- What might have been the outcomes?
- What have I learned from my involvement in this incident?

9 Under the logic of research pluralism (i.e. the use of different methods to analyze a phenomenon), diaries can be a useful complement to other research methods because of their subjective and intimate character.

### C Method 6: observations

10 Observation is about interacting, in a detached manner, with the phenomenon under consideration.

11 Whether one observes people, activities or events, the way one thinks of the interaction observer-observed determines the degree of involvement of the researcher in the phenomenon being observed; the issue is that of participation.

12 Participation raises a number of dilemmas because observing another's actions has certain ethical implications as it may be perceived to be an intrusion to the other's private sphere; hence the following recommendations:

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- Ask other's permission to observe them; however, this reduces the objectivity of the data collected.
  - Tell others they are being observed; however, this affects their behavior.
  - Discuss results of the observation; however, this may change the impressions on the observed phenomenon.
  - Identify those who are observed; however, this removes confidentiality and reduces objectivity.
- 13 Following Gold (in Nason & Golding, 1998) observational approaches can be distinguished according to the degree of participation in the context or setting concerned, that is:
- Participant observation: the researcher is part of the phenomenon observed and therefore the observed knows is observed by the researcher.
  - Non-participant observation: the researcher is not part of the phenomenon observed and therefore the observed does not know is observed by the researcher.
- 14 Non-participant observation is likely to yield data that are valid and reliable. However, this may reduce the scope of the phenomena observed. Thus, participant observation may have the advantage of allowing the researcher to discern on-going behavior and carry out in-depth analysis of one particular action or behavior. The danger is however, that of going native, that is, adopting behavior and roles as those observed and hence upsetting the very aims of the research.
- 15 In observation studies the following tools can be used:
- Field notes: taking notes in a structured way describing the events observed.
  - Observation schedules: establishing a schedule to record the occurrence of specified types of behavior or participation in specified activities.
  - Mappings: drawing certain types of interactions between people.
- 16 When observing the following practical issues should be taken into account:
- Record the notes as soon as possible after the observation.
  - Take notes quickly.
  - Organize field notes beforehand according to the phenomenon observed.
  - Ensure that notes are complete to be used at a later stage.
  - Keep an accurate time sampling especially with observation schedules.

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- Code any open-ended observations during the unfolding of events.

17 Activity: what methods will you be using for the ISU? (reflect on your own and describe methods with justification)

Methods:

### Reference:

NASON, J. & GOLDING, D. (1998), 'Approaching Observation', pp 234-249 in GILLIAN SYMON & CATHERINE CASSELL (eds.), *Qualitative Methods and Analysis in Organizational Research*, London: Sage.

SYMON, GILLIAN (1998), 'Qualitative Research Diaries', pp94-117 in GILLIAN SYMON. & CATHERINE CASSELL (eds.), *Qualitative Methods and Analysis in Organizational Research*, London: Sage.

## 15. Transnational business research 4: reading economic figures

The aim of this session is to

- Explore economic indicators
- Take informed business decisions.
- Read quantitative data.
- Solve quantitative problems.

*Class to carry out the relevant activities in four teams*

1 Whether managing a business organization that either seeks to do or already does business abroad, or for formal research, reading economic indicators plays a determining role in taking decisions. Such indicators mainly include (Ball et al. 2004):

- Technological development
- National income
- National income per head
- Income distribution
- Private consumption
- Ownership of goods
- Unit labor costs
- Purchasing power parity
- Inflation
- Socioeconomic variables

2 Economies are often classified<sup>13</sup> relative to set indicators. One indicator can be the degree of industrial development in terms of added value generated in the production and consumption of commodities (i.e. effective and efficient industrialization and use of both goods and services within a coherent economic framework<sup>14</sup>). The derived classification is the following:

- Advanced industrialized economy (AIE).  
Economies included: Canada, Australia, EU (25 members), Japan, New Zealand, US, Norway, Island, and Switzerland.
- Newly industrialized economy (NIE).  
Economies included: Brazil, Israel, Malaysia Mexico, Russia, Singapore, South Korea, Taiwan, UAE, Thailand, and Turkey.
- Less industrialized economies (LIE)  
Economies concerned: all other economies.

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<sup>13</sup> This is a common (but highly contested) practice within international organizations that includes the World Bank, OECD, and IMF that classify economies in terms of national income per head.

<sup>14</sup> This framework includes the infrastructure (i.e. facilitated and stable links between consumers and businesses; e.g. highways, airports, telephones, internet) and superstructure (i.e. facilitated and stable normalization of consumption and production; e.g. stable legislation, stable political system, social security, innovative education).

### Unit 3

3 The income-worth from the final commodities produced by an economy, that is, national income<sup>15</sup>, is accounted in the following ways (Ball et al. 2004):

- Gross national income (GNI): the total of all commodities produced at home and abroad.
- Gross domestic product (GDP): gross national product less income received from abroad

This indicator is widely used in economic and business reports often expressed in percentage change to show growth. However, it does not take into account underground economic activities (i.e. the part of income that cannot be accounted for because of either unreporting or underreporting). Further, the monetary comparison of national income requires the conversion into one common currency, usually the US dollar, which does not reflect the power that consumers have to purchase commodities (*see below*).

4 Activity 1: considering that GDP annual growth is 8% in P.R. China whereas in the Switzerland is 2%, in which of the two FEs would one want to do business with? (critically justify decision)

Decision:

5 The income-worth from final commodities produced per head, that is, income per head, which considers that the income-worth produced in the DE is produced by the whole of its population, is accounted in the following ways (Ball et al. 2004):

- Gross national income per capita (GNI/Capita)
- Gross domestic income per capita (GDP/Capita)

This is a widely-used indicator as it enables the comparison of economies relative to the well-being of their citizens and market potential for investment.

6 Activity 2: considering that GDP/Capita in Denmark is \$32'050 whereas in India is \$440, in which of the two FEs would one want to do business with? (critically justify decision)

Decision:

7 Income distribution shows the way national income is distributed and therefore shared by segments of the population of the DE. Typically, income distribution is accounted in terms of the income received (i.e. low income, middle income, high income).

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<sup>15</sup> In the Keynesian model  $Y = C + I + G + X$ .

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Such data are widely used because income distribution changes very slowly with the degree of technological development attained (*see above*)

- 8 Activity 3 (team 1): considering that one aims at selling luxury cars (value > \$50'000), which economies would be likely candidates (examine relevant table to justify decision and present findings)

Decision:

- 9 Private consumption indicators consider the amount of discretionary income (i.e. disposable income after taxes and that spent on purchasing essential items) and show how the composition of consumption evolves with time and the level of development.

- 10 Activity 4 (team 2): considering that one aims at selling luxury cars (value > \$50'000), which economies would be likely candidates (examine relevant table to justify decision and present findings)

Decision:

- 11 Additional indicators closely linked to consumption are those showing capital ownership (i.e. ownership of assets) and the consumption of necessities.

- 12 Activity 5 (team 3): considering that one aims at selling luxury cars (value > \$50'000), which economies would be likely candidates (examine relevant to justify decision and present findings)

Decision:

- 13 Unit labor costs (i.e. total direct labor costs per units produced) indicate the average salaries paid to workforce throughout the economy or within particular industries of the economy. These indicators are used for investment decisions. When unit labor costs are stable or slow rising as decision making for future investments is facilitated; conversely, sharp upward changes may induce business organizations to delocalize production in search for lower unit labor costs.

### Unit 3

- 14 Instead of comparing national incomes which require their conversion to national currencies, the purchasing power parity (PPP)<sup>16</sup> compares the number of units of a currency required to purchase the same quantities of commodities in the FE that one unit of currency would purchase in the DE.
- 15 Activity 6 (team 4): consider the following table that shows a basket of commodities and their relative prices in two economies; in establishing the economy where consumers have a higher purchasing power, in which of the two FEs would one want to do business with? (establish the PPP to critically justify decision and present findings)

<i>commodities</i>	<i>Thailand (baht)</i>	<i>US (\$)</i>
Soap – bar	15	0.45
Rice – lb	10	0.30
Shoes – pair	450	60.00
Dress	350	450.00
Socks - pair	25	2.00
Σ	850	107.75

Decision:

- 16 Inflation indicates the positive change in the monetary value of commodities. It is an important indicator as high inflation puts pressure on company costs; if the business organization seeks to raise (debt) capital, high inflation rates may result in higher interest rates which may overall discourage such a decision.
- 17 Socioeconomic variables include (Ball et al. 2004):
- Changes and trends in the population make up.
  - Age distribution within the economy.
  - Children replacement numbers.
  - Population density and distribution along the urban-rural divide.

Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.

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<sup>16</sup> The PPP has given way to the Atlas Conversion Factor that accounts for inflation while taking into account the (arithmetic) average of exchange rates (Ball et al. 2004).

## **UNIT 4**

### **Cultural forces**

## 16. Forming cultural communities 1: dividing “us” from “them” <sup>1</sup>

The aim of this session is to

- Conceptualize “cultural communities”.
- Explore the divide “us”-“them”.
- Discuss issues with examples.

### A Conceptualizing cultural communities

- 1 Considering that culture is a way of perceiving, thinking and doing<sup>2</sup>, a cultural community is a grouping, a cultural unit, whose members are characterized by a particular way of perceiving, thinking and doing. Such communities are formed through the:
  - Establishment of an (essentialist) identity often based on racial, historical, biological or normative similarity and difference.
  - Construction of values, ideals of excellence, norms of behavior regulating in-group social life.
  - Representation and expression of similarity and difference in various written and verbal forms of communication.
  - Encouragement of specific traits of temperament, moral dispositions, motivational structures and modes of expressing them.
- 2 Along these traits there is the tendency to make clear distinctions between an “us” of the cultural community and a “them” that which lies outside of the community. Given the different ways of perceiving, thinking and doing, there are different cultural communities and separations between “us” and “them”.
- 3 In the same manner, business organizations have particular ways of doing and thinking that separate them from other organizations: business organizations display corporate culture.
- 4 Making clear distinctions between “us” and “them” is the result of a number of cultural strategies adopted by the cultural community which mainly include:
  - A focus on “us”: imagining the community to have particular endowments that give superiority to the way of life of the community.

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<sup>1</sup> Material in this section extracted from W&SU Topical Paper: Cultural Issues: © 2000 Panayotis Zamaros.

<sup>2</sup> This view is consistent with an open systems perspective as it emphasizes the constitution of open, plural, and changing cultural units that (actively) interact with their environment (i.e. other cultural units in addition to topographical elements); typical views as that presented by Ball et al. (2004: 292) as ‘*the sum total of the beliefs, rules, techniques, institutions, and artifacts that characterize human populations*’ although they place an emphasis on learned patterns, assume the de facto acceptance of its norms by the mere fact of being a (culturally-learned) member of the community: such views ignore the agonistic forces (i.e. power relations) responsible for the maintenance of the unity, the same forces responsible for its change and evolution.

- A focus on “them”: expressing the “other” as inferior by naturalizing, stereotyping and objectifying the “other”.

### B Focusing on “us”

- 5 The maintenance of clear distinctions between “us” and “them” is often expressed through the construction of a strong sense of belongingness to a particular place or location<sup>3</sup>. For Anderson (in Thrift, 1997) it is about imagining the community since no one member of the community has any direct or actual relationship with another member except for the sense of belongingness that is thought (i.e. imagined) to exist.
- 6 Thus, it is the way the cultural community is imagined that results in the development of national educational systems to maintain cultural cohesion, and the institutionalization of rituals and ceremonials acting as a link among the members of a community so as to enact that which is imagined. Conversely, institutions do encourage particular ways of imagining the cultural community (Ball et al., 2004)
- 7 The discursive character of such processes aim at summoning members to occupy the same subject-position, the same social role within their community. This is what Althusser (in Woodward, 1997) calls the process of interpellation. Interpellation explains the persistence of discursive regimes (i.e. accepted ways of describing issues and concerns).
- 8 But since meaning cannot be fixed, interpellation can be temporarily bypassed to allow for new meanings to be constructed through the substitution of negative imageries and the adoption of new norms or ways of doing.
- 9 The construction of imagined communities though interpellation is not sufficient however: the established cultural boundary must also become a political one. There is, in other words, a coincidence between the cultural and political demarcations, giving rise to ethnocentrism (i.e. nationalism).
- 10 Ethnocentrism is the tendency to judge<sup>4</sup> aspects of another culture by the standards of one’s own culture<sup>5</sup>. Its purpose is to place a focus on “us”, hence the predominance of ethnocentric

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<sup>3</sup> Economists tend to explain this as relative labor immobility.

<sup>4</sup> The use of moral standards (i.e. cultural norms and values) allows for either a positive or a negative judgment of other cultures or even one’s own.

<sup>5</sup> A particular form of ethnocentrism is Eurocentrism during the 18th and 19th centuries which placed Europe at the top echelons in a hierarchy of places and people by 1) drawing on the distinction between an “us” as civilized and a “them” as savage (Thrift, 1997) and 2) colonization as a normative pretext to discover and know other people and their territories so as to construct a comparative knowledge that would demarcate Europe from the rest of the world; this dual demarcation was maintained by the construction of racialised discourses (Hall, 1997) structured by oppositions and differences around two themes at the origin of the often-held (but unfortunate) opposition culture-nature or even nurture-nature: 1) civilized (i.e. intellectually developed; taste for refinement and knowledge; belief in reason; belief in formal institutions and government: concepts mainly associated with culture); 2) savage (i.e. lacking of civility; reliance on custom and ritual: concepts mainly associated with nature); these oppositions were seen to underlie biological characteristics along the typical (but unfortunate) division of “white” vs. “non-white” when the former is associated with civilization and the latter with savagery.

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cultural forms over others: it is a form of cultural leadership (in its weak forms of expression) or cultural hegemony (in its strongest expression).

### C Focusing on “them”

- 11 Naturalization is an effective representational strategy of substituting cultural differences, which are subject to change, for natural differences, which are by nature fixed (Hall, 1997). It is about describing the “other” in terms of essential characteristics, that is, reduced and naturalized to their essence. This essentialist attitude leads to the use of particular conceptual classifications or types involving the reduction, exaggeration, essentialisation and naturalization of cultural features into widely recognizable features and in consequence fixing difference.

Example a: business organizations operating within the same industry are merely labeled to be “competitors”, hence a reduction of their social complexity to one of their simplest feature, that of naturally being an opponent.

Example b: unemployment is often seen to be the result of either the non-action of the unemployed or the structural weakness of an economy that has entered a downturn without accounting for additional factors, actors, and circumstances in the economy.

- 12 Stereotyping is a strategy to split what is normal from what is ab-normal, thus fixing social boundaries that exclude anything that does not fit within the norm (Hall, 1997)<sup>6</sup>. It has therefore a structure (poetics) and is involved with relationships of power (politics):

→ The poetics of stereotyping: stereotypes have a binary structure with two sides, namely, one that is overt (i.e. that which is made known or visible), and another covert (i.e. that which is denied and often feared of)<sup>7</sup>.

→ The politics of stereotyping: stereotyping is a power/knowledge game that classifies and subject-positions people according to the prevailing discourses<sup>8</sup>.

Example a: if business organizations operating within the same industry are merely labeled to be “competitors” in the sense of being opponents they are stereotyped as such undermining efforts for collusion.

Example b: if unemployment is often seen to be the result of either the non-action of the unemployed or the structural weakness of an economy that has entered a downturn, two stereotypes are constructed. In the first instance, the unemployed worker is labeled to be “sloth” regardless of the economic reality of that person or the efforts made to find a new job. In the second case, the unemployed is seen to be the “victim” of economic circumstances,

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<sup>6</sup> Stereotypes are put together during the process of identity construction when one becomes aware of the difference between the self and the world (Gilman, 1997). It is the moment when one progressively becomes aware that one cannot totally control our environment. The resulting anxiety and discomfort that needs to be combated obliges us to adjust the mental picture we have of our environment into making classifications between acceptable and unacceptable. In other words, stereotypes arise when self-integration is threatened. They are therefore part of our way of dealing with the instabilities of our perception of the world.

<sup>7</sup> In other words, stereotyping is grounded not only in what is real but also in fantasy.

<sup>8</sup> It is a site of struggle for hegemony since prevailing discourses will attempt to keep their dominant position when faced with resistance.

hence an emphasis on passivity in the sense that the unemployed did not do all that was possible to avoid such a situation in the face of the downturn.

13 From the above insights stereotyping leads to:

- An irrational dislike, suspicion or hatred of the “other”.
- The materialization of power over the “other” on the basis of race.
- The assumption that widely-held beliefs are true.
- The reinforcement of widely-held beliefs.
- The assumption that widely-held beliefs are true of any one individual.

14 Since stereotypes are a crude set of mental representations of the world and desires that are discursively constructed, they perpetuate a sense of difference between self and the environment. But since the environment is incomprehensible, it is reduced to an object: the other is objectified thus losing all the features that make up a person. Objectification leads to a representational practice known as “fetishism”, the process whereby objects are given to represent positive or negative forces, feelings, desires, fantasies or values (Hall, 1997). It involves the transfer of power and desire on the object of substitution (displacement)<sup>9</sup>.

Example: transferring meanings on a logo or a trade mark in the effort to brand a commodity.

15 Despite their ambiguous features, fetish and totemic objects help order social life when they have been made to embody the norms and values of a cultural community (Woodward, 1997). It follows that naturalizing, stereotyping and objectifying the “other” helps maintain the social and cultural coherence of the community, hence a focus on “us”<sup>10</sup>.

### Reference:

- BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.
- GILMAN, SANDER (1997), ‘The Deep Structure of Stereotypes’, in STUART HALL (ed.) *Representation: Cultural Representations and Signifying Practices*, London & Milton Keynes: Sage / The Open University.
- HALL, STUART (1997) ‘The Spectacle of the Other’, in STUART HALL (ed.) *Representation: Cultural Representations and Signifying Practices*, London & Milton Keynes: Sage / The Open University.
- THRIFT, NIGEL (1997), ‘Us and Them’: Re-imagining Places, Re-imagining Identities’, in HUGH MACKAY (ed.) *Consumption and Everyday Practice*, London & Milton Keynes: Sage / The Open University.
- WOODWARD, KATHERINE (1997) ‘Concepts of Identity and Difference’, in KATHERINE WOODWARD (ed.) *Identity and Difference*, London & Milton Keynes: Sage / The Open University.

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<sup>9</sup> Quite often the fetish is indulged because it is seen to be official and widely-accepted, while at the same time such a powerful fascination is denied (disavowed) because secret, embarrassing or taboo.

<sup>10</sup> Such coherence is difficult to change despite efforts, in practice, by states may to weaken the spread of stereotypes by having appropriate legislation that penalizes the construction and application of prejudice and enhancing the elaboration of oppositional discourses to transform prejudiced cultural norms or giving a voice to minorities.

## 17. Forming cultural communities 2: cultural factors

The aim of this session is to

- Explore factors influencing cultural communities.
- *Research issues.*
- *Prepare and present issues.*

*Class to be divided in three teams to carry out the relevant activities*

1 Cultural factors refer to determining factors that ‘shape ... cultures’ (Schultz et al, 2003: 246) and which bring about distinctions among cultural communities .

2 Typically they include (Schultz et al, 2003):

- Geography
- Climate
- Arable land
- Transportation
- Location
- Natural hazards (i.e. geological conditions that endanger human life)
- History
- Religion

Ball et al. (2004) also consider topography (i.e. geography) and climate to be important while placing greater emphasis on location (i.e. relations) and natural resources (i.e. endowments).

3 Activity 1 (team 1): in what ways does location influence culture? (research text and the web to prepare and present arguments)

Location:

4 Activity 2 (team 2): in what ways does topography influence culture? (research text and web to prepare and present arguments)

Topography:

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- 5     Activity 3 (team 3): in what ways do natural resources influence culture? (research text and web to prepare and present arguments)

Natural resources:

Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.  
SCHULTZ, MIKE et al. (2003), *International Business: Canada and Global Trade*, Toronto: Nelson.

## 18. Understanding cultural communities 1: cultural expressions

The aim of this session is to

- Explore cultural expressions.
- Prepare and present issues.

*Class to be divided in three teams to carry out the relevant activities*

1 Cultural expressions refer to behaviors and attitudes that are particular of a cultural community.

2 Typically cultural expressions include Ball et al. (2004):

- Aesthetic: art; music; folklore
- Attitudinal: attitudes towards time; achievement and work attitude; change attitude
- Religious: work ethic; religious traditions
- Material: technology
- Educational: standards; emigration
- Linguistic: spoken and written languages; nonverbal languages
- Organizational: kinship; associations

3 Activity 1 (team 1): what are the features of aesthetic cultural expressions? (research text and web to prepare and present arguments with examples)

Aesthetic cultural expressions:

4 Activity 2 (team 2): what are the features of attitudinal cultural expressions? (research text and web to prepare and present arguments with examples)

Attitudinal cultural expressions:

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- 5 Activity 3 (team 3): what are the features of material cultural expressions? (research text and web to prepare and present arguments with examples)

Material cultural expressions:

- 6 What the above cases show is that cultural issues are often sensitive; to avoid misunderstanding or offending others, the following rules of thumb can be considered when doing transnational business (Ball et al. (2004):
- Be prepared: learn about the places and people.
  - Slow down: learn to be patient.
  - Establish trust: learn to develop personal relationships.
  - Understand the importance of language: learn the basics and use an interpreter.
  - Respect the culture: learn to respect the host's norms.
  - Understand the culture: learn the prevailing norms and expectations

Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.

## 19. Understanding cultural communities 2: cultural perception <sup>11</sup>

The aim of this session is to

- Explore “cultural perception”.
- Explore “cultural variability”.
- Discuss issues with examples.

1 Cultural perception refers to the way a cultural community understands (i.e. perceives) a cultural issue.

### A Describing cultural perception

2 One can describe cultural perception by means of two approaches (Brislin, 1981)<sup>12</sup>:

- The emic approach: consists in describing the way a cultural community perceives issues from within the community itself (i.e. understanding a community and the issues it faces in the same way as its members do).

Example: industrialized communities (e.g. Swiss) consider that cattle is produced for meat and sale, hence an emphasis on both quality and quantity, while it can be a sign of wealth among others (contrasted to non-industrialized communities (e.g. Masai) which consider that cattle is neither primarily for meat nor for sale, hence an emphasis on quantity as it is a unique sign of wealth).

- The etic approach: consists in describing the way a cultural community perceives issues from without (i.e. adopting an external standing relative to the community)<sup>13</sup>.

Example: classifying cultural communities according to how they perceive dedication, motivation and a sense of commitment to one’s work and company.

### B Variable cultural perception

3 In adopting the etic approach, cultural perception is often described by means of a number of variables found to be shared by a number of cultural communities at various degrees.

4 Following Hofstede<sup>14</sup> (in Gudykunst & Matsumoto, 1996; in Ball et al., 2004) the variables include:

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<sup>11</sup> Material in this section extracted from W&SU Topical Paper: *Cultural Issues* © 2000 Panayotis Zamaros.

<sup>12</sup> Note that the construction of criteria and research tools for examining cultural perceptions is biased by the cultural norms and perceptions of the researcher as a member of a cultural community.

<sup>13</sup> This approach is mainly used for examining issues and concerns that can be shared by a number of cultures.

<sup>14</sup> Additional research has been carried out by Trompenaars.

- Individualism vs. Collectivism<sup>15</sup>: describes the way people define themselves and their relationship with others. In particular:
  - individualism: people look after themselves and immediate family, allegiance to many in-groups exerting little influence on behavior, predominance of universalistic values, sphere of influence of in-groups is specific (affects one aspect one's life), priority over individual needs and goals
  - collectivism: people belong to a collectivity which takes care of them, allegiance to a few in-groups exerting a strong influence on behavior, predominance on particularistic values, sphere of influence of in-groups is general (affects all aspects of one's life), priority over collective needs and goals
  
- High vs. Low Contexts: describes the degree to which the environment influences communication. In particular:
  - high-context: meaning is transmitted from the environment rather than through the text, used mainly in collectivist cultures, indirectness of speech, sensitivity to non-verbal messages, use of ambiguous reasoning, transmission of messages inconsistent with true feelings since priority is given on in-group harmony, silence is equally communicative
  - low-context: meaning is transmitted through the text rather than the environment, used mainly in individualistic cultures, directness of speech, specific and elaborate verbal messages, expression of logic and reasoning, transmission of messages consistent with one's feelings, tendency to fill in silence
  
- High vs. Low Uncertainty Avoidance: expresses the extent to which people feel uncomfortable in unstructured and unpredictable situations. On either pole we find:
  - high uncertainty avoidance: low degree of tolerance for uncertainty and ambiguity, strong desire for consensus, deviant behavior considered unacceptable and dangerous, emotions easily displayed, resisting change, lower motivation for achievement, loyalty is a virtue, specialized careers, disapproval of competition, development of rules for every situation
  - low uncertainty avoidance: high degree of tolerance for uncertainty and ambiguity, acceptance of deviant behavior as a curiosity, propensity for risk and change, strong motivation, critical evaluation of events and ideas

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<sup>15</sup> Such perceptions are affected by 1) *personality orientations* distinguished between idiocentric, a concern with individual needs, and allocentric, a concern with the needs of the in-group; 2) *individual values* serving individual interests: self-direction (independent thought and action), stimulation (exciting life), hedonism (pleasure), achievement (personal success and ambition), power (authority and social status), or collective interests: conformity (politeness), tradition (acceptance of customs), benevolence (enhancement of other's welfare), or serving mixed interests: security (safety and social order), universalism (understanding and protection, equality), spirituality (meaning in life); *self construal* emphasizing either an independent or an interdependent construal of the self.

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- High vs. Low Power Distance: shows the degree to which power and prestige are distributed among the members of a cultural community. We therefore have:
  - high power distance: power is concentrated in the hands of a few members, is a feature of society, emphasis on coercive and referent power, acceptance of employer power, obedience of children, display of authoritarian attitudes, close supervision, counter-dependence and lack of trust by employees, accepting orders, stress on group cohesion
  - low power distance: power is equally distributed, emphasis on legitimate and expert power, preference for consultation, interdependence between employer-employee, emphasis on respect, questioning orders, egalitarian co-operation, individual initiative
  
- Masculinity vs. Femininity: examines the degree to which feminine (or masculine) traits prevail in a cultural community. Its features include:
  - masculinity: distinction between male and female roles, value placed on power and assertiveness, strong motivation for achievement, work is central to one's life, value challenge more than satisfaction with work, little contact with the opposite sex
  - femininity: overlapping of male and female roles, emphasis on interpersonal relationships and concern for the weak
  
- High vs. Low Immediacy: describes the degree of closeness in relationships between people. In particular:
  - high immediacy: close personal distance, warmth, open expression of feelings
  - low immediacy: distant behavior, indirect expression of feelings

5 Activity: establish which of the cultural variables are applicable to you (tick against the appropriate variable, sketch details if necessary and share findings in class)

Individualist	
Collectivist	
High context	
Low context	
High uncertainty avoidance	
Low uncertainty avoidance	
High power distance	
Low power distance	
High immediacy	
Low immediacy	
Masculine	
Feminine	

### C      Effects of Variable cultural perception

6      Variable cultural perception brings about difficulties in terms of:

- Translating indexical signs: in terms of lexical, grammatical, syntactical and idiomatic equivalencies.  
Example: the idiomatic expression ‘*ciel mon mari*’ cannot be translated as ‘sky my husband’.
- Translating conceptual maps.  
Example: the meaning of “democracy” varies not only from one person to another but also from one polity to another: democratic Athens was different from democratic Switzerland since in the former women had no possibility to vote.
- Finding experiential equivalencies.  
Example: having a shopping experience in Geneva is different from London.
- Anxiety in communication.  
Example: when in an unfamiliar situation (i.e. foreign environment) not knowing how to cope with it.
- Assuming similarity between cultures instead of difference.  
Example: transferring conceptual maps and feelings from one business organization to another while expecting similar ways of thinking and doing.
- Non-verbal misinterpretations.  
Example: putting one’s feet on a pillow maybe interpreted as lack of respect by the Thai.

#### Reference:

- BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.  
BRISLIN, R. W. (1981) *Cross-Cultural Encounters*, Allyn & Bacon.  
GUDYKUNST, W. & MATSUMOTO, Y. (1996), ‘Cross-Cultural Variability of Communication in Personal Relationships’, in  
GUDYKUNST, W. & TING-TOOMEY, S. & NISHIDA, T. (eds.) *Communication in Personal Relationships Across Cultures*, SAGE.

## 20. Globalization <sup>16</sup>

The aim of this session is to

- Approach “globalization”.
- Explore “globalization drivers”.
- Explore “global identities”.
- Explore “global tensions”.
- Discuss issues with examples.

### A Globalization

- 1 Giddens (2000) argues that ‘the global spread of the term (globalization) is evidence of the very developments to which it refers’: it is evidence of the globalization of culture, business, consumption, and relations, a ‘globality’ that goes beyond the transnational ‘integration of goods technology, labor and capital’ (Ball et al., 2004: 9).
  
- 2 In arguing against the skeptical argument (i.e. that since the earnings from trade are small and given the importance of regions, there is no such thing as globalization) and the radical position (i.e. that with the advent of the global marketplace, globalization is not only a fact but moreover its effects are as nations have seen their sovereignty undermined), Giddens (2000) adopts a middle position to propose that globalization:
  - Should not be solely seen in economic terms: political, technological, and cultural as well.
  - Is a complex set of processes, which is at times contradictory.
  - Is an opportunity for reviving local cultures.
  - Creates new economic and cultural zones within and across nations.
  - Is not necessarily developing in even-handed ways.
  - Creates a world of winners and losers.
  - Increases ecological risk.
  - Brings about reverse colonization.
  - Questions national identities.
  - Is not a benefit devoid of difficulty.

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<sup>16</sup> Material in this section extracted from W&SU Topical Paper: *Globalization* © 2000 Panayotis Zamaros.

- 3 Theories on globalization include (online 1):
- World system theory: globalization is the process whereby the capitalist world-system spreads across the actual globe by maintaining some of its main features over several centuries; thus globalization does not constitute a new phenomenon.
  - World polity theory: globalization is the growth and enactment of world culture in that a rationalized world institutional and cultural order has crystallized. This order consists of universally applicable models that shape states, organizations, and individual identities influencing conceptions of progress, sovereignty, and rights, structuring the actions of states and individuals, by providing a common framework for global disputes.
  - World culture theory: globalization refers to 'the compression of the world and the intensification of consciousness of the world as a whole' (Robertson, 1992: 8), triggering universal meanings to live in this single place even if such questions often receive different answers from individuals and societies.

### B Global Identities

- 3 If, following Ball et al. (2004), globalization is mainly driven by the unification and socialization of the communities in addition to the availability of information, globalization constructs identities, which depend, according to Hannerz (in Robins 1997), on one's response to the process of globalization.
- Symbolic analyst: involved with the production and manipulation of symbolic information as a result of having acquired transferable, hence valued skills giving a certain degree of autonomy and mobility that undermine loyalty towards organizations.
  - Transnational organization man: carries out routine production services while identifies with and is loyal towards an organization and whose mobility is dependent on the multiple locations global corporations are to be found.

This distinction has come about as a result of knowledge management on a global scale. This is because information as the raw material social organizations and processes are made of has become critical in transnational activity in terms of the capacity to create and apply new knowledge rapidly through information processing. This situation has led to the division between those who are able to produce and process knowledge (the symbolic analysts) and those not (the transnational organization men).

- 4 It also follows that the degree of capability a business organization has to create and apply knowledge has brought about for two consequences:
- The role of the state as a unit for organizing human activity and managing economic endeavor in a borderless world has become dysfunctional.
  - The rise of region-states, new centers that serve as nodes for the corporate network where the main corporate activity is concentrated.

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In other words, although economic activity has become transnational, the importance of localities has not been undermined because competition to attract investments and other types of mobile venture (e.g. conferences, sporting events, theme parks) is no longer between nation-states but between region-states (i.e. localities and cities).

### C Global Tensions

5 Given the above insights, globalization:

- by putting different cultures in contact does not only lead to hybridization but also to friction and conflict  
Example: the Iranian state has banned satellite broadcasting to prevent the that Iranian society is influenced by western values.
- is positive for those located at the forefront of the processes, while for others it is disorienting thus tending to resist it by clinging on existing identities and cultural practices according to Massey  
Example: restricting imported television programs.
- involves the exploitation of markets on a world scale where global corporations transcend national boundaries  
Example: hiring low-wage workers to produce Disney by-products.
- tends to homogenize and standardize products by considering the world as one identical entity while at the same time there is a growth in ethnic markets  
Example: one can find next ethnic drinks next to colas.
- has enabled the proliferation of national and regional media as a result of a re-assertion of cultural identity in the face of globalizing forces despite the development of a global culture has taken place by those media organizations that are able to operate in transnational spaces  
Example: Inuit television network.
- conflicts with existing cultural identities which shows a weak market positioning of global firms as well as upsets the belief that global media is able to interconnect cultures by transcending national or ethnic boundaries  
Example: MTV has considered more regional strategies.

### D Underlying Rationale

6 For Wilk (1997) these tensions show that there are two opposing tendencies:

- The globalization of all social aspects, thus a tendency to homogenization.
- The localization of the same aspects, thus a tendency towards cultural heterogeneity.

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- 7 One can say that cultures are “becoming different in uniform ways”. This is because the global system shapes novel distinctions and boundaries between local cultures which in turn become the constitutive elements of a global culture. Yet, one cannot say that globalization displaces everything that has preceded it as there is continuity of social and cultural life.
- 8 Rather, globalization should be seen to be the optimum state of cultural phenomena where new cultural elements are juxtaposed with older ones or eventually evolve into novel forms, hence its complexity and diversity, which is experienced differently by each one of us according to one’s economic, geographical and social position.
- 9 Globalization should be seen as an unfinished project which is contradictory and contested since by pulling cultures in different, contradictory, and often-conflictual ways, it creates the de-territorialization of cultures. But it also involves cultural re-territorialization due to the increasing mobility of culture, but also about new cultural fixities in a global-local relationship.

### Reference:

- BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.
- GIDDENS, ANTHONY (2000), ‘Globalization’, in MICHAEL LUCAS (ed.), *Understanding Business: Environments*, London & Milton Keynes: Routledge / The Open University.
- ROBINS, K. (1997), ‘What in the World’s Going On?’, in DU GAY, P. (ed) *Production of Culture / Cultures of Production*, London & Milton Keynes: Sage / The Open University.
- ROBERTSON, ROLAND (1992), *Globalization: Social Theory and Global Culture*. London: Sage.
- WILK, R. (1997), ‘Learning to be Local in Belize: Global Systems of Common Difference’, in MACKAY, H. (ed.) *Consumption and Everyday Life*, London & Milton Keynes: Sage / The Open University.
- Online 1: *The Globalization Website*, <http://www.sociology.emory.edu/globalization/theories.html>, accessed on 10.01.2006.

## 21. Cultural imperialism thesis <sup>17</sup>

The aim of this session is to

- Explore “cultural imperialism thesis”.
- Discuss issues with examples.

### A Thesis

- 1 The ‘cultural imperialism thesis’ is a critique of the phenomenon of globalization as characterized by increased information flows, economic exchange, travel and migration.
- 2 It stresses the attempt by western-based profit centers to predominate over the global scene of production and consumption in line with the expansionist logic of profit maximization resulting not only in the progressive standardization of productive processes and commodities leading to the homogenization of consumer culture, but also in the emergence of a common discourse that regulates social and private life in similar ways across the globe.
- 3 According to this thesis globalization has come about through the global expression of the profit-maximization logic: it is the logic of corporations which, in order to maximize their profits and take advantages of economies of scale, seek to find cheaper resources and create new markets (Tomlinson, 1997).

### B Global Spatial Division

- 4 This logic has therefore spatially divided the world according to the degree of capital accumulation (i.e. assets and finance) and economic power. For Wallerstein (in Sanderson & Hall, 1995) the world economy consists in a hierarchical system divided into zones:
  - core: at the top of the hierarchy where capital and wage-labor are mostly concentrated, one can find those societies which dominate economically and politically as they make use of advanced forms of technology
  - periphery: at the opposite of the ‘core’ one can identify societies using outmoded forms of technology and which are economically the least developed
  - semi-periphery: a buffer zone whose role is to stabilize the polarity between the ‘core’ and ‘periphery’
- 5 The underlying argument of this world division is that, in its attempt to maintain its hegemony (i.e. ceaseless accumulation of capital) the west has been exploiting other economies economically and politically and in consequence, culturally<sup>18</sup>.
- 6 *However*, from an economic viewpoint it seems difficult to find empirical evidence of a core-periphery exploitative relationship in contemporary history (Tomlinson, 1997: 141-143): the

<sup>17</sup> Material in this section extracted from W&SU Topical Paper: *Globalization* © 2000 Panayotis Zamaros.

<sup>18</sup> This argument is based on Marx’s claim that the superstructure of a society is determined by the structure of its economic base.

economic power of Japan and the emergence of the Asian tigers show that profit-maximization has no loyalty to a particular nation-state let alone it has been absorbed uniformly across the globe. Hence, power has shifted away from the west to other power centers to the extent of causing the economic impoverishment of certain regions within the so-called 'core' zone.

- 7 Considering the above arguments, the global division is better viewed as multipolar with multiple centers and peripheries where hegemony is contested<sup>19</sup> while it is shared<sup>20</sup>.

### C New Power Centers

- 8 From the cultural imperialism standpoint it can be argued that the emergence of new cultural power centers has been the result of western capital investments, the search for cheaper resources, the creation of new markets and increase in trade, and the expansion of information technology easing communication between financial and profit centers. These trends have been facilitated by the conclusion of international agreements under the aegis of the WTO as well as the financial operations of the IMF and World Bank.

Example: the proliferation of western goods ranging from "Coke" and "Windows XP" to movies such as "Batman Returns" and perfumes such as 'Chanel'.

- 9 In addition, not only western goods and practices are becoming global, but also western cultural tastes and preferences as they are transmitted through visual and graphic representations and the imagery of mass advertising: there is the progressive installation of western conceptions and interpretations of social realities (i.e. the adoption of western values, beliefs and rationality at the expense of other forms and conceptions). In other words, the growth of profit-maximization and its modernization effects are progressively eroding the social practices and eventually absorbing non-western cultural communities, thus rendering them dependent and homogeneous.

- 10 *However*, the following arguments can be made against cultural unification and dependence:

- The emergence of other cultural centers and markets determined by geo-linguistic factors.

Example: the rise of non-Anglophone media centers such as Bombay for Hindi films, Hong Kong for Chinese movies, in addition to national film festivals, show that the pre-eminence of English as a global language cannot be taken for granted.

- Those individual entrepreneurs of the periphery may also seek to take advantage of the logic of profit-maximization as well as adapt new technologies for their own innovation.

Example: in broadcasting the attractiveness of some commercial programs such as "Dallas" or "The Bold and The Beautiful" have led to domestic productions, which in some cases, especially Brazilian, have been exported.

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<sup>19</sup> This is in the sense that each centre vies for its own interest.

<sup>20</sup> Centers have the opportunity to share concerns in international organizations.

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- Reduction of linguistic differences and meaning distortion in dubbing processes, to which we can add the search for new cultural reference in imported programs.  
Example: there is a tendency in the west to watch foreign movies in their original version even if the audience does not speak the language.
- Global communication provides cultural communities with new opportunities for identity construction.  
Example: consolidating religious fundamentalism; the creation of the Inuit television in Canada and in general the regionalization of broadcasting
- Imported western consumerism tends to be more of an urban phenomenon rather than a rural one because the consumption of mass-produced goods and the promotion of lifestyles are a middle-class phenomenon.  
Example: displacing older values tends to happen in cities rather than in the countryside where traditions are stronger, as is the case in Southeast Asia despite mass tourism.

11 Overall, the core-periphery paradigm seems to have weaknesses in its attempt to capture the transnational complexity and the changes in global cultural interrelations.

### D Global Consumption

- 12 The cultural imperialism thesis tends to view consumers as passive ignoring the complexities of reception and appropriation (i.e. fallacy of internalism) since globalization is read from a structural viewpoint considering that power is unidirectional from centre to periphery.
- 13 Put differently, the thesis claims that western goods are transferred from specific points of origin – the centers of cultural production where power is concentrated, to global sites of consumption as the continuation of a long historical process of imperialist expansion. There is control at a distance where regional events are affected by events distant from them since globalization is a web binding all cultures.
- 14 *However*, there is evidence of the contrary:
- Should one examine the terms of trade of several economies, one can see that the US is no longer as powerful a trading economy as was during the Marshall Plan years and that inter-European trade is more important than trade with non-western economies.
  - Since there is no distinct direction in global processes, we are witnessing the loss of western cultural grip over other cultures (*The Economist*, September 27th 1997).
  - There is the ‘indigenization’ of western cultural goods as a result of what Cohen (in Roudometof & Robertson: 284) has referred to as ‘selective receptiveness’ in cross-cultural exchange, which has led to ‘glocalization’ (i.e. the simultaneous adaptation and transformation of the same cultural items in different places). The consequence of selective receptiveness is cultural hybridization, rather than a western cultural imposition, which is not an exclusive feature of the periphery but increasingly so in the west (Tomlinson, 1997).

Example: the ‘westernization’ of Asian cuisine with meals that are less hot and spicy to accommodate European palates or as the diverse mutations in popular music attests.

- The increased mobility of populations has led to the construction of diasporic identities that undermine hitherto neat distinctions between “us” and “them” by undermining ethnocentric discourses.
- 15 Overall, since cultures have become interdependent and globalization has become a lived experience of hybridity clashing with rhetoric of authenticity, we can no longer see it as a western project, nor of the newly-rising power centers, but rather as a global one in the sense that it has become everybody’s project.

### E The Role of the State

- 16 Supporters of the ‘cultural imperialism thesis’ would argue that although commodities embody local cultural practices, their structure is predominantly western.  
Example: the rapid development in both France and Belgium of ‘quick’, a convenience food restaurant that not only is structured in a similar way as ‘McDonalds’ is, but also the meals are alike.

- 17 What this example equally shows is the loss of originality and the proliferation of simulacra for the purposes of commercial gain. Therefore, the imperative of profit-maximization tends to advance into two dynamic modes (Sanderson & Hall, 1995):

- Evolutionary dynamics: a deepening through continual structural change.
- Expansionary dynamics: a broadening through the incorporation of any area that has not participated so far.

The congruence of both dynamics leads to the commodification of all the aspects of social life.

- 18 *However*, there are arguments against such a claim:

- The dynamics of profit-maximization and commodification are met with resistance leading to friction and conflict since the decrease in physical distance between cultures tends to destroy the hitherto unquestioned cultural assumptions and stereotypes.  
Example: the attempts by the Iranian state to ban satellite broadcasting to reduce western influence on the Iranian society.
- Seeing that the role of the state to protect the interests and rights of citizens has been undermined and that cultural regulation and the law are contested sites, and that nation-states have become more socially plural and multicultural, counter-pressures for re-regulation have come about to maintain or to restore a national or ethnic social order and cultural heritage<sup>21</sup>.

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<sup>21</sup> To a certain extent, there is moral re-regulation that appears to be inversely proportionate with economic de-regulation.

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- Example: the opposition by the EU and especially by the French to liberalize trade in films during the GATT Uruguay Round, a protectionism based on claims that the state has autonomous interests while speaks on behalf of the nation; this was supported by artists who asserted that European movies are produced for arts' sake unlike American productions whose sole goal is commercial.

19 Overall, although the state establishes what part of knowledge counts as legitimate, as well as controls, selects, organizes and institutes decisions and policies, the difficulty to implement cultural protectionism shows a divergence between the desires of people in the everyday routines (i.e. taking advantage of globalization) and the state's efforts in preserving a national culture (i.e. resisting globalization where it undermines state sovereignty and autonomy).

### F Assessing the Thesis

20 The thesis provides us with a coherent model of globalization that highlights the mechanistic reproduction of profit-maximization rationale stemming from one unique centre. It was shown however that this takes place through the construction of multiple centers. What is more, it appears that the reproduction of profit-maximization is not faithful. Finally, that consumption is more of a hybrid phenomenon. The thesis, in other words, fails to address issues of heterogeneity that are evidence of movement and change (i.e. that which has enabled globalization to take place in the first place).

21 Therefore, considering that globalization is a complex and ever-changing process that touches all cultural communities at various degrees, it articulates cultural units variously regardless of their location although it is embedded in a unique structure of links and opportunities.

#### Reference:

ROUDOMETOF, VICTOR & ROBERTSON, ROLAND (1995), 'Globalization, World System Theory, and the Comparative Study of Civilizations, pp273-300 in STEPHEN SANDERSON (ed.), *Civilizations and World Systems: Studying World-Historical Change*, Walnut Cree: AltaMira.

SANDERSON, STEPHEN & HALL, THOMAS (1995), 'World System Approaches to World-Historical Change, pp229-238 in STEPHEN SANDERSON (ed.), *Civilizations and World Systems: Studying World-Historical Change*, Walnut Creek: AltaMira.

TOMLINSON, JOHN (1997), 'Internationalism, Globalization and Cultural Imperialism', pp117-153 in KENNETH THOMPSON (ed.), *Media and Cultural Regulation*, London and Milton Keynes: Sage / The Open University.

## **UNIT 5**

### **Political forces**

## 22. Political regimes

The aim of this session is to

- Examine political regimes.
- Explore "democracy".
- Examine political processes.
- Explore main political ideologies.
- Discuss issues with examples.
- Explore political speeches

*Class to carry out the relevant activity*

### A Political Regimes

- 1 With Sodano (2001) the following two political regimes (i.e. political arrangements) can be distinguished:
  - Democracies: where the people are above the state.
  - Autocracies: where the state is above the people.
- 2 Specifically, a democracy refers to the regime where the 'people have the right to determine who governs them ... they elect the principal governing officials and hold them accountable for their actions ... (by imposing) legal limits on the government's authority by guaranteeing certain rights and freedoms to their citizens' (Sodano, 2001: 28).
- 3 This conceptualization points to a number of key aspects of the democratic state (Sodano, 2001):
  - Popular sovereignty<sup>1</sup>: people have the right to govern themselves and in implementing this right they either exercise control over state authority directly or they establish effective mechanisms for holding their government formally accountable to them; this implies that:
    - Governing officials are not imposed upon the citizens (elected state).
    - Citizens decide over the power of the governing officials (limited state).
    - Governing officials are responsible for what they do and must inform their citizens as required (state accountability).
    - Governing officials have the right to take decisions in virtue of the fact that they have been elected (state legitimacy).
  - Rights and liberties: consist of certain basic rights and freedoms that must be guaranteed by law to the citizenry – they may not be taken away.

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<sup>1</sup> Held (1991) claims that sovereignty is often assumed whereas in fact it is challenged fundamentally by the globality of interconnections.

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- Democratic values: values associated with popular sovereignty and rights and freedoms and which include tolerance, fairness and compromise; in particular the various criteria of fairness and equality as social and economic components of democracy.

### B Political Processes

- 4 If politics is a process that occurs within rules and procedures, there are mainly two political processes (Sodano, 2001):
- Bargaining: where the political objectives are achieved through negotiation and exchange.
  - Coercion: where the political objectives are achieved through the use of the threat to use force.

### C Political ideologies

- 5 The manner the political process is understood and interpreted gives rise to a number of political ideologies. An ideology is seen to be 'a coherent set of ideas and guidelines that defines what the nature and role of [the state] should be and prescribes the main goals the community should pursue through political action' (Sodano, 2001: 45).
- 6 Political ideologies typically and historically ranging from the right to the left, include (Sodano, 2001; Ball et al. 2004):
- Nationalist: promotion of state sovereignty and autonomy in addition to national autonomy; complete state involvement with the economy where policies are aimed at decreasing the impact of interdependence at the expense of the foreign economies.  
Example: Front National (France).
  - Conservative: promotion of state sovereignty and autonomy in addition to national autonomy; little state involvement with the economy other than setting the legal framework to enhance the private businesses; policies are aimed at decreasing the impact of interdependence often at the expense of the foreign economies.  
Example: UDC (Switzerland); Tories (UK).
  - Liberal: promotion of state autonomy through bargaining; little state involvement with the economy other than setting the legal framework and providing the necessary incentives to enhance private businesses; emphasis on national competitiveness considering the pressures from the international environment.  
Example: Parti Libéral, Parti Radical (Switzerland); The Liberals (UK).
  - Socialist: promotion of state ownership and control of the basic means of production, distribution and exchange to render viable the social programs and security.  
Example: Parti Socialiste (Switzerland); Labor (UK).

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- Communist: promotion of state involvement to regulate the economy and to control all the factors of production through coercion with the view to distributing income evenly.  
Example: POP (Switzerland); Parti Communiste (France).

7 Activity: identify ideologies in political discourses and speeches delivered by US, UK, French, German and Canadian political figures (research and examine 2 political speeches to present findings in class)

Ideologies:

### Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.  
HELD, DAVID (1991), 'Democracy and the Global System', in DAVID HELD (ed.), *Political Theory Today*, Oxford: Blackwell.  
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## 23. The state

The aim of this session is to

- Explore the “state”.
- Appreciate state debates.
- Explore “society-centered approaches”.
- Explore “state-centered approaches”.
- Explore state role in the transnational economy.
- Discuss issues with examples.

### A The State

1 The state, as the totality of a nation’s institutions and officials, consists of the following:

- Executive (i.e. government): where policies are formulated (with the help of the administration and the parliament) and executed.
- Legislative: where policies are formulated (together with the government and the administration), debated and voted upon.
- Judiciary: where policies are evaluated (i.e. judicial review).
- Administrative (i.e. bureaucracy): where policies are researched and formulated.

In some cases the state may include the military (e.g. Turkey) and the media (e.g. Russia).

2 Depending on the resources the state has as well as the limitations and pressures that are imposed upon it, whether external (i.e. originating in the international environment) or internal (i.e. originating from the domestic environment), the following two issues characterize state debates (Held, 1991):

- Sovereignty: the undisputed right the state has to determine the framework of rules, regulations and to take decisions over policies within a given territory and to govern accordingly.
- Autonomy: the ability the state has to take decisions and to formulate policies independently of internal and external pressures and demands.

Note that if the state is sovereign it may not have the desired autonomy.

### B The State and the Domestic Environment

3 To understand how the state is prone to internal pressures, McGrew (2000) proposes two approaches to describe the relationship between the state and the domestic environment:

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- Society-centered approach: the state is tightly constrained by the structure of power within society; state decisions are heavily reliant on political support and the economic resources made available by private actors (voters, interest groups, managers).
- State-centered approach: the state has the ability to act contrary to the demands of private actors (voters, interest groups, managers).

### 4 Main features of a society-centered approach (McGrew, 2000):

- Liberal-pluralism: the state's role is to deliver policy outcomes that do not diverge from the status quo while reflecting the demands of the public; power and political resources are fragmented; overall: dispersion of power guarantees that no single set of interests can systematically dominate.
- Structural: a distorted liberal state with policy communities (health, social security, energy, defense, education) wherein particular policies are privileged relative to the community's concern; overall: unequal distribution of power resources.
- Elitist: elites tend to privilege issues that maintain their power; overall: unequal distribution of power.

### 5 Main features of a state-centered approach (McGrew, 2000):

- New right: the state can and does act autonomously; competition between parties increases citizen demands on the state; overall: the state is powerful and despotic.
- Corporatism: the political structure integrates organized socio-economic producer groups; overall: the state has autonomous power.
- Neo-Marxist: the state is capitalist and hence prone to contrary forces: its need to sustain its legitimacy vs. its need to sustain the conditions for private accumulation; overall: the state seeks to acquire resources to lessen the effects of such contradiction

## C The State and the Domestic Economy

### 6 The main roles that the state plays in the domestic economy include:

- Monitoring prices.
- Controlling inflation.
- Managing the supply of money and the exchange rates together with the central bank.
- Enhancing innovation and competitiveness.
- Controlling unemployment.
- Controlling taxes.
- Investing in growth industries.
- Developing and improving the infrastructure.

- 7 Depending on political ideology (*see session 22*) the degree of state involvement within the domestic economy<sup>2</sup> is typically perceived in the following ways (Schultz et al., 2003):
- Market economies: where there is little state involvement other than setting the legal framework and providing the incentives and necessary leverage to enhance the domestic economy in the international environment.
  - Command economies: where state involvement is important in terms of setting the legal framework, ownership and the management of the production in an effort to protect the domestic economy in the international environment.
  - Mixed economies: where state involvement is variable depending on the economic climate, state policies and priorities.

### D The State and the Transnational Economy

- 8 The main roles that the state plays in the transnational economy include:
- Establishing trade policies.
  - Developing trade regulations.
  - Assisting exporting industries.
  - Maintaining relations with other nation-states.
  - Promoting the domestic economy abroad.
- 9 The degree to which the state is able to play these roles successfully depends on how it is able to cope with a number of disjunctures that erode its sovereignty and, consequently, its autonomy (Held, 1991), namely:
- Global economy: there is a disjuncture between the formal authority of the state and the transnational system of production, distribution and exchange.  
Example: the maintenance of quotas (i.e. imported quantities) decided by the Swiss state to protect wine industry against pressure by the WTO to liberalize this industry with the removal of quotas.
  - International organizations: there is a disjuncture between the authority the state has to formulate policies and the reliance on transnational forums and regimes to further domestic policies.  
Example: in cases of receivership (i.e. bankruptcy), the state in France seeks through the EU institutions that a French business company takes over the one in difficulty for the purpose of keeping the French economy in French hands.
  - International law: there is a disjuncture between the policies and laws that the state passes and the development of transnational legal requirements and constraints  
Example: the state in Thailand has signed the *Universal Declaration of Human Rights, 1947*, but has not yet fully implemented policies regarding social security and labor standards.

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<sup>2</sup> A typical debate over the state involvement with the economy is privatization (i.e. the sale of state-owned business to private companies).

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- Power blocks: there is a disjuncture between the policies and laws that the state passes to safekeep its territory and the demands of power blocks and hegemons.  
Example: the state of Poland has been asked to reinforce its eastern border by the EU institutions and the NATO to control immigration.

### Reference:

MCGREW, ANTHONY (2000), 'Putting the Advanced Capitalist State in Perspective', in MICHAEL LUCAS (ed.), *Understanding Business: Environments*, London & Milton Keynes: Routledge / The Open University.  
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## 24. Political risk

The aim of this session is to

- Explore “political risk”.
- Establish checklist to assess “political risk”
- *Research in political risk.*

*Class to be divided in three teams to carry out the relevant activities*

- 1 Political risk refers to those decisions taken by the state likely to affect the business climate.
- 2 The obverse refers to political credibility, which according to Borner et al. (1995: 16) is ‘the most important property of a political system in explaining a country’s economic performance’.
- 3 A typical measurement of political risk is the Country Risk Assessment (CRA) (Ball et al., 2004) that highlights:
  - Political information on state structure, policies and elections.
  - Economic information about exchange rates, foreign reserves, inflation, balance of payments.
  - Social information on unemployment, social reforms and policies.
  - Legal information on taxes, currency convertibility, investment, tariffs, quotas, labor permits.
- 4 Political credibility results from the state’s ability to both enforce its rules and be bound by them; specifically (Borner et al., 1995):
  - The rules are enforced in a non arbitrary manner.
  - The process of rule-making is transparent and predictable.
- 5 In case that political credibility is weak, political risk may be considered in the following ways (Schultz et al., 2003):
  - General instability risk: when political uncertainty and instability threatens commercial operations overall.
  - Ownership risk: when the ownership of business organizations is threatened by expropriation or when a number of industries become state-controlled.
  - Operations risk: when state policies impede specific commercial operations in terms of finance, marketing or production.
  - Transfer risk: when state policies affect exchange rates (depreciation) or when the economic conditions bring about a fall in the currency (devaluation) due to the inability of state to stabilize the economy

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- 6 Activity 1 (team 1): what nation-states are currently risky, and what type of risk is involved? (research and prepare to present issues)

Nation-states & risks:

- 7 Activity 2 (team 2): what key questions should business ask to assess political risk? (research and prepare to present issues)

Key questions:

- 8 Activity 3 (team 3): what actions should a business organization carry out to reduce political risk? (research and prepare to present issues)

Actions:

### Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.  
BORNER, SILVIO et al. (1995), *Political Credibility and Economic Development*, New York: St. Martin Press.  
SCHULTZ, MIKE et al. (2003), *International Business: Canada and Global Trade*, Toronto: Nelson.

## 25. Order in broad and limited transnational environments <sup>3</sup>

The aim of this session is to

- Classify transnational environments
- Explore order in broad transnational environments.
- Explore order in limited transnational environments.
- Discuss issues with examples.

### A Transnational Environments

1 Transnational environments, include two types, namely

- The broad transnational environment (global environments) that comprises the relationships between nation-states and organizations across any territorial boundary to the extent of which of comprising all the nation-states of the world.
- The limited transnational environment (regional environment) that comprises the relationships between nation-states and organizations across specific territorial boundaries on the basis of cultural, economic and political criteria, or because so defined by outside powers.

### B Hegemonic Order in the Broad Transnational Environment

2 In the broad transnational environment, following Huntington (1996), one can witness a superpower logic that refers to the set of policies and priorities set by a state, the hegemon that uses important resources for the attainment of its objectives considering that it is sovereign and autonomous to a large extent<sup>4</sup>.

3 In particular a hegemon uses four superpower logics:

- Strategic logic: considering that globalization and interdependence has brought about the mutual reinforcement in the projection of power, to sustain credibility and to punish defectors from alliances, a hegemon may seek to project power capability while attempting to rally support from within the zone of influence.  
Example: rallying support by the US during the Gulf War (CE 1991).

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<sup>3</sup> Material in this section extracted from W&SU Topical Paper: Political Issues: © 2000 Panayotis Zamaros.

<sup>4</sup> After WWII two superpowers emerged, namely the US and USSR, with their own zone of influence on either side of the iron curtain. Since the 1980s both hegemons have lost of their superpower status; in the former case, the weakening of the dollar together with the first oil crisis in the 1970s brought about a loss of political credibility; under the Reagan administration the erosion of the US hegemony was the most felt due to an important budget deficit causing a fall in savings and capital accumulation and formation, which in turn led to lower productivity, which, coupled with lower tax rates, led to foreign borrowing, thus making of the US become the biggest debtor nation-state (*The Economist*, March 9<sup>th</sup>, 1991); the USSR lost of its superpower status with the collapse of its state and political regime.

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- Political-economic logic: as there is the consolidation of a world-wide system of production, exchange and mass communication that all nation-states are implicated to some degree, a hegemon may seek to control economic relations; a hegemon benefits from increasing the capital base for its domestic production by having some measure of control over the systems of production on other nation-states through political leverage (*see session 21*).  
Example: the presence of the EU in Turkish economic relations benefits the EU even though Turkey is not a member of the EU.
- Regional logic: nation-states belonging to the zone of influence of a hegemonic power seek alternative political and economic routes than that practiced by the hegemon and thus needs to deal with the material culture of the hegemon; the hegemon may then seek to apply its power capacity to re-align these nation-states because it is perceived as if it is losing ground on its rival hegemon<sup>5</sup>.  
Example: Poland in the 1980s where the USSR sought to use its military power to bring the Polish state to follow the Soviet policies and priorities.
- Regime logic: the role of a hegemon to police its zone of influence and at times even control the actions of nation-states beyond its usual reach may go counter its political aspirations; it is a form of control that ensures the safekeeping of democratic principles.  
Example: the US influencing other nation-states is inimical with its democratic principles.

No two hegemons have similar behaviors as these differences result from their political and economic capabilities taking into account changing circumstances in addition to the power capabilities developed by each nation-state in its zone of influence (Karl & Fagen, 1986).

4 There are two main sources for hegemonic power:

- Economic power: starting from the premise that the transnational behavior of a hegemon results from its domestic political and economic make up, the former seems to be determined by the economic imperatives of the hegemon: the role of the political is to maintain the structure of economic relations intact; the resulting hegemonic power is used to expand the capital base of the economy beyond the national territory when domestically the markets are saturated<sup>6</sup>.
- Military power: if a hegemon is to win the economic battle, it must wield another form of power, and the one that is intimately tied to economic power is military power because power over security matters gives the domestic production system a dual competitive advantage (i.e. it enables its own expansion while being an economic activity in its own right); military power need not be used in its rawest form: it can be the result of visible maneuvering, selective military assistance, arm sales, control of military elites, that is, a set of control methods over those nation-states that are part of the hegemon's zone of

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<sup>5</sup> This explanation does not take into account the systemic reasons that push a hegemon to safekeep its zone of influence intact, that is maintain its economic capability.

<sup>6</sup> When this logic is applied to any nation-state, collectively, the transnational arena is characterized by a competitive drive over resources and raw materials increasing the probability for conflict over inputs.

influence (Rice, 1986); hegemony need not only build a power capability but also find ways to show it, and military power, unlike economic power, is the most visible.

- 5 Because of the visible effects of military power and the use of economic power to maintain or expand the domestic production base, it seems that broad transnational relations are, to start with, maintained by the continuing efforts and power deployments of some hegemony, and moreover, orderly in the sense that there is a global structure that is determined by the power capabilities of these hegemony<sup>7</sup>.

### B Turbulent Order in the Limited Transnational Environment

- 6 In contrast to the previous approach, for Rosenau (1990) transnational relations are dynamic and therefore characterized by varying degrees of turbulence. Turbulence is a dependent variable as

- It is a source of the high complexity, dynamism and interconnectedness at work in the global system.
- It accounts for the dynamism of actors and is in itself a dynamic reflecting change that can further cause change

- 7 With Rosenau (1990) the transnational environments are characterized by causative factors systematic stimuli determining patterns of behavior. The latter contribute to rendering politics chaotic as it is difficult to delineate any pattern of behavior. It follows the simultaneous presence of order and disorder for the following reasons:

- The absence of balance of power mechanisms.
- The rise of different loci of power.
- Changes in individual behaviors.
- Changes in institutional life and organization.
- The pressure of fundamentalist religions.
- Reactions of conservative states towards fundamentalism.
- The felt obligation of hegemony to be involved in issues in any part of the world.
- Efforts by domestic politicians to divert attention to external problems.
- Discrepancies in resources and productivity among nation-states.
- Trade imbalances.
- Indebtedness.
- Overextension of the banking system.
- Agitation by ethnic minorities for statehood or greater autonomy.
- New technologies.

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<sup>7</sup> Depending on the ideology, the right seems to consider that the order is mainly maintained by the logic of military power capabilities of hegemony; for liberals the order is preserved through economic competitiveness and innovation of hegemony; for the left, transnational order is maintained by the capital expansion of hegemony for the benefit of their domestic economic and political elites.

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- 8 It follows that the set of all dynamic and changing activities make up after Emery and Trist (in Rosenau, 1990) the following types of relations:
- Disturbed: complexity is high and dynamism low.  
Example: ministerial meetings.
  - Placid: complexity and dynamism is low.  
Example: combining efforts to improve security after terrorist attacks.
  - Turbulent: complexity and dynamism are high.  
Example: diplomatic escalation over an important issue
  - Hyperturbulent: complexity and dynamism are too high for the adaptive capacities of collectivities and individuals.  
Example: war
- 9 From disturbed to hyperturbulent, relationships in the limited transnational environment delineate a regional system or a regional complex of relationships which is the geographical area wherein nation-states relate to each other in a manner that is turbulent and changing.
- 10 Hoffmann (1985) claims that the transnational order is ambiguous. If this is the case, not only does it mean that there is no longer any hegemon that is economically and politically powerful enough to dominate in the broad transnational environment so as to maintain the order, but that there only regional relations. Put simply, in the absence of hegemonic influence to maintain and order a broad transnational environment, there is emergence and consolidation of regional orders and logics, which are turbulent and ambiguous. This ambiguity has come about because of two simultaneous changes:
- A vertical power fragmentation in the broad transnational environment where power has shifted from the hegemonic nation-states to others, which have coalesced in reaction to superpower exercise of influence.
  - A horizontal fragmentation of power into a variety of subsystems as a result of interdependence and globalization.

### Reference:

- HOFFMANN, S. (1985), 'The Future of the International Political System: a Sketch', SAMUEL HUNTINGTON & JOSEPH NYE (eds.), *Global Dilemmas*, Harvard: Harvard University.
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- KARL, T. & FAGEN, R. (1986), 'The Logics of Hegemony: the United States as a Superpower in Central America', in JAN TRISKA (ed.), *Dominant Powers and Subordinate States*, Duke University Press.
- RICE, CONDOLEEZA. (1986), 'The Military as an Instrument of Influence and Control', in JAN TRISKA (ed.), *Dominant Powers and Subordinate States*, Duke University Press.
- ROSENAU, JAMES (1990), *Turbulence in World Politics: a Theory of Change and Continuity*, Princeton: Princeton University Press.

## 26. Public transnational law <sup>8</sup>

The aim of this session is to

- Distinguish jurisdictions.
- Explore “international jurisdiction”.
- Discuss issues with examples.

### A Jurisdictions

- 1 Public international law (Ball et al. 2004) includes the legal relations between states where the principle of state legitimacy applies and therefore that of sovereignty and autonomy (*see session 23*)
  
- 2 State sovereignty and autonomy implies a sharp division between the domestic and foreign environments hence of jurisdictions. However, the interdependent nature of transnational economic, political and technological relations has changed the degree to which a state is effectively sovereign: although jurisdictional division seems to be the case<sup>9</sup>, one state will seek and can influence the decisions made in another state and even shape the laws in the foreign environment<sup>10</sup>. Hence, the following distinction:
  - Domestic jurisdiction: the domestic environment wherein domestic law applies.  
Example: Canada’s Criminal Code
  
  - Foreign jurisdiction: the foreign environment wherein aspects of the domestic law applies<sup>11</sup>.  
Example: Canada’s Tax Laws
  
  - International jurisdiction: the broad or limited transnational environments wherein international law applies<sup>12</sup>.  
Example: WTO agreements

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<sup>8</sup> Parts of this session taken from Zamaros, Panayotis & Paliare, Chris (2005), *Canadian, International and Comparative Dimensions of Law*, Lausanne: P. Zamaros.

<sup>9</sup> Cases in point are procedural differences found in constitutional law, or criminal sentencing.

<sup>10</sup> A telling case is that of Switzerland: the adaptation of its legal system inclusive of its constitution to comply with EU legal standards and procedures – it is debatable whether this gives the Swiss state more leverage power: on the one hand, one can argue that it does as the Swiss state is better equipped to influence decisions made in the EU, while on the other, this change itself attests of the influence the EU exerts over the Swiss state.

<sup>11</sup> This is also referred to as extraterritorial application of laws.

<sup>12</sup> This jurisdiction does not supersede domestic jurisdiction because of the absence of both a legislative body for the passing of laws internationally and an executive body for the implementation of laws internationally; under the dualist perspective the two systems co-exist as they address, in principle, different issues, when at times they intersect; then ‘states have international obligations that they may violate through domestic legislation if they wish’ (Dickinson et al., 1996: 450).

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### B Transnational Law

3 The constitution of a clearly identifiable body of transnational law is made along the following arguments (Dickinson et al. 1996):

- An international legislature is not essential, in that communities have existed and functioned without a legislative body – a system of laws evolves out of common interests and a sense of obligation.
- There are binding international obligations contained in transnational legislation revised and updated in treaties thus simply replacing existing customary practice.
- National states and international organizations consider transnational legal dimensions to be as important as domestic ones.
- No regular system of enforcement of transnational law is needed – domestic law itself lacks such regularity.
- A system of enforcement of transnational law exists.

Note that transnational law does not mean international jurisdiction in that the adoption of international law concerns all the nation-states: it concerns *only* those that have come into such an agreement.

4 Such agreements render explicit the participation of states in various international organizations and forums – international regimes, as this is in their best interest (i.e. the benefits from participating outweighs the costs from not participating or merely being observers). Such agreements include (Dickinson et al. 1996):

- Treaties as the written agreement voluntarily entered into between two or more nation states.
- Customary international law believed to be the natural manner of behaving that can never be legally breached.
- General principles of law.
- Judicial decisions made in international courts of law.
- Resolutions taken in international organizations and their affiliated agencies.

5 Diplomatic relations between nation-states – inclusive of consular activities that play a mediating role with the local authorities, are part of customary international law as they are based on a number of principles and rules<sup>13</sup>.

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<sup>13</sup> Among which the most important are immunity and asylum.

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- 6 Generally speaking, transnational laws and agreements whose application is supervised by international bodies, mainly the UN, WTO, and IMF seek to
- Render trade fair
  - Stimulating competition that is environmentally and socially sustainable
  - Facilitate the exchange of information
  - Settle disputes

### C International Bodies

- 7 Among the various international (governmental) organizations (*see sessions 28 and 30*) it is the United Nations that have an important body of transnational law considering that membership open to all nation-states that accept the obligations of the UN charter and which are able and willing to fulfill these obligations<sup>14</sup>.
- 8 The UN System is based on six principal organs, namely (Ball et al. 2004; Alexandrowicz et al., 2004):
- The UN General Assembly is made up of all member states and meets in regular yearly sessions under a president elected from among the representatives; it serves as a forum for members to launch initiatives on issues of common concern i.e. questions of peace, economic progress, and human rights as well as initiate studies, make recommendations, develop and codify international law, promote human rights, and further international economic, social, cultural, and educational programs.
  - The UN Security Council is the most powerful organ of the UN charged with maintaining peace and security between nations as it is empowered to make binding decisions – the UN Security Council Resolutions.
  - The UN Economic and Social Council (ECOSOC) assists the General Assembly to promote international economic and social cooperation and development, while acting as a forum for finance ministers heading key committees of the World Bank and the International Monetary Fund.
  - The UN Secretariat carries out the activities according to the UN mandate and administers the programs and policies of peacekeeping operations, mediation of international disputes, surveys of economic and social trends, in addition to carrying out studies on human rights and sustainable development.
  - The International Court of Justice seeks to settle disputes submitted to it by nation-states and to give advisory opinions on legal questions submitted to it by the General Assembly of the Security Council.

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<sup>14</sup> It is made up of 191 nation-states with the exception of the Vatican (permanent observer state) and Taiwan.

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### D Territorial issues

- 9 Typically, territorial issues comprise jurisdictional disputes over (Alexandrowicz et al., 2004; Dickinson et al., 1996):
- Water: considering the increased demand for resources owing to industrial development and resource exploration there is additional partitioning of seas and oceans into domestic and international jurisdictions.
  - Air: in principle there is freedom of the air but airspace sovereignty is subject to domestic jurisdiction.
  - Atmosphere: the awareness of the damaging effect of greenhouse gases has brought about the ratification of the *Kyoto Protocol*<sup>15</sup> as a complex plan affecting mainly developed nation-states for reducing gas emissions at 1990 levels by 2012.
  - Pollution: where pollution, due to the stockpiling of chemicals and fertilizers, is not regulated the transportation and storage of hazardous waste is; water pollution falls within domestic jurisdiction but where such resources are shared, international law regulates their use.

### E Peaceful dispute resolution

- 10 One of the central purposes of international treaties and conventions is to put in place mechanisms that allow the resolution of disputes in a peaceful manner (CUN, art 2(3)) through negotiation, mediation, conciliation, arbitration, judicial settlement, and diplomacy, because transnational law provides a comprehensive framework for peaceful resolution of disputes that includes:
- International courts, among which the ICJ to deal with inter-state disputes and the ICC to deal with war crimes.
  - Strategies that emphasize consensus building, institutional defense arrangements<sup>16</sup>, arms control initiatives<sup>17</sup>, embargoes, and restrictions on warfare tools<sup>18</sup>.

#### Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.  
ALEXANDROWICZ, GEORGE et al. (2004), *Dimensions of Canadian and International Law in the 21<sup>st</sup> Century*, Emond Montgomery Publications.  
DICKINSON, GREGORY et al. (1996), *Understanding the Law*, 2<sup>nd</sup> edition, McGraw-Hill Ryerson.  
CUN: CHARTER OF THE UNITED NATIONS, 1945.

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<sup>15</sup> The *Kyoto Protocol* emerged from a number of conferences held under the UN Framework Convention on Climate Change and was ratified by 122 nation-states in 2004.

<sup>16</sup> A case in point is the NATO.

<sup>17</sup> This includes the *Treaty on the Non-Proliferation of Nuclear Weapons*, 1968.

<sup>18</sup> This includes the *Geneva Protocol*, 1925.

## 27. Private transnational law

The aim of this session is to

- Explore private transnational legal issues
- *Research issues.*
- *Present issues.*

*Class to be divided in four teams to carry out the relevant activities*

- 1 Private intentional law (Ball et al., 2004) concerns laws governing the transactions between states, business organizations and individuals within the transnational environment.
- 2 The main aspects include (Ball et al., 2004):
  - The performance of contracts
  - Intellectual property
  - Taxation
  - Bankruptcy
  - Tariffs
  - Torts
  - Currency exchange
  - Employment
- 3 Activity 1 (team 1): what challenges does a business organization face with the performance of contracts in the transnational environment? (research text and web to prepare to present issues)  
  
Contracts:
- 4 Activity 2 (team 2): what challenges does a business organization face with intellectual property in the transnational environment? (research text and web to prepare to present issues)

Intellectual property:

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- 5 Activity 3 (team 3): what challenges does a business organization face with taxation in the transnational environment? (research text and web to prepare to present issues)

Taxation:

- 6 Activity 4 (team 4): what challenges does a business organization face with antitrust and commercial laws environment? (research text and web to prepare to present issues)

Antitrust and commercial laws:

- 7 In addition to the different contractual obligations, tax regimes and practices, nation-states impose immigration restrictions and quotas, which are an additional challenge to business organizations operating transnationally seeking to hire labor internationally (*see session 51*).

Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.

## **UNIT 6**

### **Economic forces**

**28. Trade regimes and policies<sup>1</sup>**

The aim of this session is to

- Explore trade regime institutions.
- Explore trade policies.
- Discuss issues with examples.
- *Discuss issues by means of economic models.*

1 Trade regimes are characterized by the exchange of factors of production which regulated within international institutions whose prime concern is the trade of goods and services (Keohane, 1984).

A The General Agreement on Trade and Tariffs - GATT

2 GATT was the result of post-war negotiations within the Breton Woods context and concluded during the Geneva Round 1947. Since then an increasing number of nation-states have taken part in the Rounds resulting in a higher value of trade as shown below:

ROUND	DATE	NATION-STATES	VALUE OF TRADE (\$ bn)
Geneva	1947	23	10
Annecy	1949	33	-
Torquay	1950	34	-
Geneva	1956	22	2.5
Dillon	1960-61	45	4.9
Kennedy	1962-67	48	40
Tokyo	1973-79	99	300
Uruguay	1986-93	118	-

3 The functioning of GATT was based on the following provisions:

- Export subsidies: signatories may not use export subsidies except for agricultural products.
- Import quotas: signatories may not impose unilateral quotas on imports, except when imports threaten to disrupt markets.
- Tariffs: the introduction of a new tariff or the increase in a tariff must be offset by reductions in other tariffs.

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<sup>1</sup> Material in this section extracted from W&SU Topical Paper: *Economic Issues* © 2000 Panayotis Zamaros and *International Relations: a Course* © 1995 Panayotis Zamaros.

### B World Trade Organization-WTO

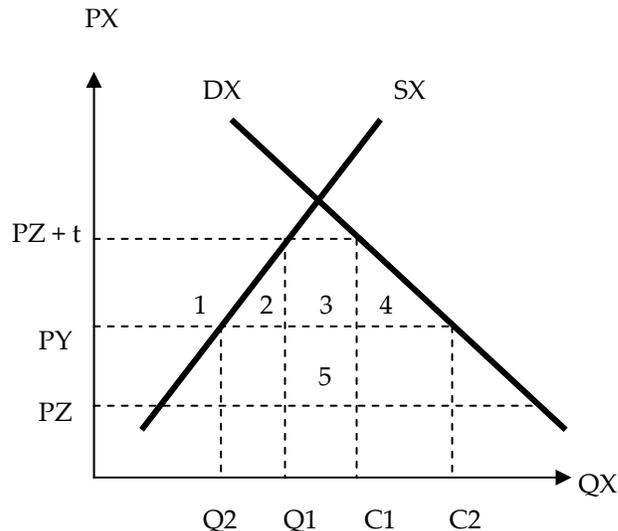
- 3 The overall result of the Uruguay Round, the most important to date, has been a further liberalization of trade to the advantage of developed countries and the creation of a new body the World Trade Organization – WTO (Ball et al., 2004). Specifically:
- Agriculture: the liberalization of the market access, domestic support and export competition. Moreover, the need for food security and the protection of the environment (green box policies).
  - Textiles and clothing: the incorporation of MFA (Multi-fibre Agreement), that is the progressive integration of a certain % of the total volume of imports (yarns, fabrics, made-up fabrics, clothing) in GATT, increased control over quotas, protection against cheap products and the settlement of disputes by TMB (Textiles Monitoring Body).
  - Services: services (trans-border supply, intra-border supply, foreign commercial presence, trans-border supply of labor) are to be more transparent; qualification requirements, licensing procedures and technical standards cannot be used as barriers; non-restrictions on transfers of payments (except for balance-of-payments reasons), capital, and access to domestic telecommunication network. However, financial services remain domestically controlled.
  - Trade-related investment measures (TRIM): the progressive removal of measures involving either state incentives for trans-border investments or restrictions to protect domestic businesses.
  - Trade-related aspects of intellectual property rights (TRIP): agreements covering aspects of copyright and related rights, trademarks, geographical indications, industrial designs, patents, trade secrets and the control of anti-competitive practices.
  - Subsidies and countervailing duties: in principle, subsidies should not undermine foreign firms or impair the benefits enjoyed under the GATT by a foreign country. Thus, bonuses, preferential transport costs, tax cuts or concessions, and subsidies based on export performance are prohibited.
- 4 The WTO has had the following specific effects:
- Foodstuff: the main gainers have been the AIEs who are net exporters of agricultural produce while LIEs being importers have suffered losses. However, in OECD nation-states where subsidies are high, farmers have become worse off since the prices have fallen to the consumer's advantage.
  - Manufactures: in an increased market access requiring the absolute reduction in tariffs, import prices have fallen. Thus, AIEs (especially within trading blocks) have gained more than LIEs who do not have a revealed comparative advantage.

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### C Trade Integration and the European Union- EU

- 5 The effect of the GATT and WTO has been trade integration, which may be viewed as a series of policies aiming at one of the following outcomes:
- Preference area: when economies agree to levy preferential tariffs on certain trade.
  - Free trade area (FTA): when partner economies agree to abolish tariffs on mutual trade yet each partner determines the tariff to be levied to non-partner economies.
  - Customs union (CU): when economies apply free trade policies within the union and have a common trade policy with non-partners.
  - Common market (CM): when a customs union characterized by the relatively free mobility of factors of production and trade harmonization.
  - Economic union (EU): when there is extensive harmonization in trade, monetary, legal and social policies and complete mobility of factors of production
- 6 A customs union involving the removal of tariffs on trade, is beneficial to producers and consumers belonging to the union but not to the rest of the world. The following shows this:

Considering that the domestic economy X forms a customs union with a foreign economy Y but not with economy Z, thus a tariff  $t$  is levied, its imports increase from  $C1 - Q1$  to  $C2 - Q2$  since  $PY < PZ + t$ . However, a union with economy Z would have increased imports further if it is more competitive than Y because  $PZ < PY$ :



In this case, the results from a customs union are the following:

- Trade creation: occurs when there is a removal of trade barriers, hence an increase in imports which displace higher cost home production  $Q2 < Q1$  and increase overall consumption  $C1 < C2$ . The gains from trade creation are areas  $2 + 4$ .

→ Trade diversion: takes place when trade is shifted from a more efficient economy to a less efficient economy as a result of trade policy. The loss from such a policy is area 5.

7 The European Union as primarily a customs union originates from the establishment of the European Coal and Steel Community following the Treaty of Paris in 1951. As a result of a deeper integration, the European Community was constituted in 1967 and under the treaty of Maastricht in 1993, the European Union. The governance of the EU is shared between the following bodies (Ball et al., 2004):

- European Commission: having a supranational character, it drafts proposals for regulations, recommendations and directives which the Council has to consider, acts as a mediator between the members, and ensures that individuals, firms and member states do not act in ways opposed to Treaties.
- European Council of Ministers: it represents the ultimate controlling authority since the regulations and directives proposed by the Commission become law if the Council approves of them.
- European Parliament: is consulted by both the Council and Commission prior to implementing policies. It has the power to dismiss the Commission.
- European Court of Justice: being independent from national influence, the Court may rule differences between the other bodies and give preliminary rulings for the benefit of national courts.

8 With the establishment of the EU, trade creation (partner imports are greater than domestic sales) has far exceeded trade diversion (partner imports are greater than non-partner imports) which shows the benefit of the union. External trade creation (non-partner imports are greater than domestic sales) has equally risen as a result of GATT and the WTO.

### D General Trade Policies in AIEs

9 Trade policies in AIEs aimed at the allocation of resources (preferential allocation) to sectors that can contribute positively to economic growth, include the following (Venables, 1995):

- Adding value per unit of labor: since the sum of value added (i.e. the difference between the value of output and inputs) measures GDP, its increase per capita leads to the rise in national income. However, in the absence of market failures, economic growth will result from the shift in production from labor-intensive sectors to capital-intensive sectors.
- Liking firms: the development of a core industry brings about the development of those firms, which use its output in their production processes (dependent firm). However, developing a core industry may not bring about the development of its dependent firms since an increase in output or price will not lead to an increased return.

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- Promoting industries with future growth potential: since technological change, shifts in demand, supply and comparative advantage lead to different growth rates of industries, those having the greater growth potential will contribute to economic growth. However, owing to competition, the growth of promising industries will shift capital and labor towards this sector thus making state intervention unnecessary.
- Protecting specific industrial sectors: industrial policy may be used as a defensive measure to protect the sectors whose growth contracts. However, a change in comparative advantage will bring about changes in world relative prices thus shifting resources into other sectors.
- Enhancing technological externalities: the state should invest in R&D and subsidize the high-technology sectors, as the spillover will be beneficial to other sectors of the economy. However, this may lead to biased growth since some industries may lack the necessary support due to market failures.
- Adopting strategic trade behavior: it is the attempt by the state to get the profits from international imperfect competition by subsidizing domestic firms thus adopting a dominant strategy. The Brander-Spenser analysis<sup>2</sup> shows this phenomenon. Considering that firm A belongs to the domestic economy whereas firm B belongs to the foreign economy, the outcome of this game (i.e. decide whether to produce or not produce) depends on which of the two firms actually makes the first move, that is has a first mover advantage since the game has two symmetrical equilibria (one when A produces and B does not and second, when B produces and A does not):

A	produce	not produce
B produce	-5	0
not produce	100	0

Suppose now the domestic firm receives a subsidy of 25. In this situation the domestic firm has a dominant strategy, whatever firm B decides to do. In particular if firm B is deterred from producing the gains are even greater:

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<sup>2</sup> This analysis is based on game theory.

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A	produce	not produce
B produce	20 -5	0 100
not produce	125 0	0 0

### E General Trade Policies in LIEs

- 10 The state attempts to promote industrialization, cope with the uneven development of the domestic economy and counter what is perceived as unfair economic practices. In particular:
- Promotes manufactures: states in LIEs often support domestic efforts of industrialization by means of trade barriers. The reasons for temporary protectionism include the lack of a well-organized financial sector, which does not allow savings from agriculture to be invested in manufactures, the establishment of patents and other related rights, and technology spillover. However, moving quickly into businesses that will have a comparative advantage in the future may prove to be risky unless other sectors are simultaneously developed and labor is skilled.
  - Import-substituting industrialization: import-substituting industrialization is the progressive substitution of imported goods for equivalent domestic commodities under protectionism. To be successful, such a policy needs to have a social organization based on skilled labor, managerial capacity and entrepreneurship in order to make the sectors more efficient. However, one persisting difficulty is that protectionism biases incentives and undermines any attempt to social organization. What is more, eliminates the option of product specialization.
  - Modernization: technology can be made available to LIEs through technology transfer and its appropriate use through large-scale, capital-intensive methods those that characterize multinationals. However, the low productivity in LIEs is not synonymous with unequal trade patterns at the advantage of AIEs since LIEs have a comparative advantage from labor.

Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.  
 KEOHANE, ROBERT (1984), *After Hegemony: Co-operation and Discord in the World Political Economy*, Princeton University Press.  
 VENABLES, ANTHONY (1995) 'International Trade', in MAUREEN MACKINTOSH et al., *Economics and Changing Economies*, Milton Keynes: Open University.

**29. Flow of goods <sup>3</sup>**

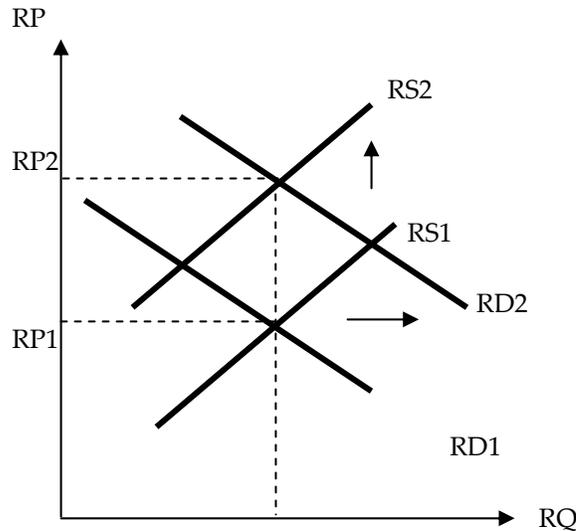
The aim of this session is to

- Explore trade barriers
- Explore the effect of trade barriers
- Examine arguments for and against trade liberalization
- *Discuss issues by means of economic models.*

1 The flow of the goods traded is affected, to some extent, by the policies the state puts in place to improve the terms of trade of the economy, or correct market failures (i.e. uneven distribution of income or decreased competitiveness of domestic firms) by means of tariffs on imported goods and subsidies on exports.

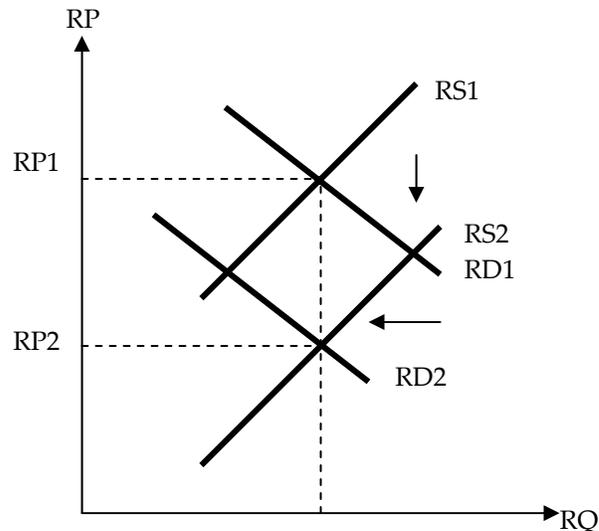
A Trade Barriers

2 Tariffs as an instrument are used to increase the price of imports domestically (internal price) rather than in the world market (external price). If the domestic economy exports commodity A and imports commodity B and levies a tax on imports for commodity B, since the internal price for commodity B will be higher than the external price, the domestic production of commodity A will suffer since the relative price rises from RP1 to Rp2 (i.e. renders the domestic goods more expensive relative to the foreign goods, hence net exports decrease and with it national income). Graphically, there is a shift in the relative supply RS1 to RS2, increasing domestic consumption of commodity A, shifting relative demand RD1 to RD2:



3 Subsidies as an instrument are used to set an external price higher than the internal price. Graphically, the relative supply increases while reducing the relative demand for the exported commodity, hence lowering the relative price from RP1 to RP2 (i.e. renders the domestic goods cheaper relative to the foreign goods, hence net exports increase, and with it national income):

<sup>3</sup> Material in this section extracted from International Relations: a Course: © 1995 Panayotis Zamaros.



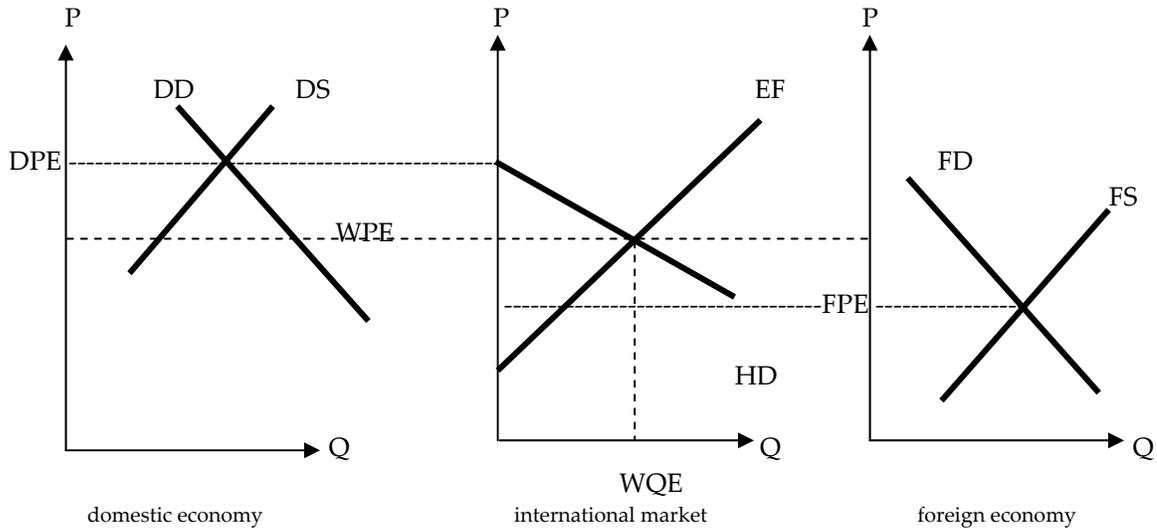
- 4 Tariffs and subsidies bring about opposite effects. The extent of the effect depends on the degree of the abundance of factors of production – according to the Heckscher-Ohlin model (Ball et al., 2004). The economy that imposes a tariff improves its terms of trade relative to the rest of the world. However, it also imposes costs since it lowers the domestic production and incentives towards consumption. Thus, if the gains from tariffs are to outweigh the losses, the tariff needs to be small and the value of imports quite high. A subsidy hurts the domestic economy at the benefit of the rest of the world. However, the effect of tariffs and subsidies upon the domestic income distribution presents a paradox (known as the Metzler paradox). Tariffs raise the internal relative price for imports and subsidies that of exports, yet past a certain limit, the relative price may actually fall.
- 5 We distinguish among the following types of trade barriers:
- Specific tariff: fixed amount levied for each unit of goods.
  - Ad valorem tariff: amount levied as a fraction of the value of the good.
  - Specific subsidy: fixed sum per unit paid by the state to firms for exported goods.
  - Ad valorem subsidy: fraction of the value of a good paid by the state for exported goods.
  - Import quota: a direct restriction on the quantity of some good that may be imported.
  - Voluntary export constraint (VER): a quota imposed by the exporter association.
  - Local content requirement: regulation that requires that some specified fraction of a final good be produced domestically.
  - National procurement: regulated firms that are directed towards domestically produced goods even when these are more expensive than imports.

## B Effects of Trade Barriers

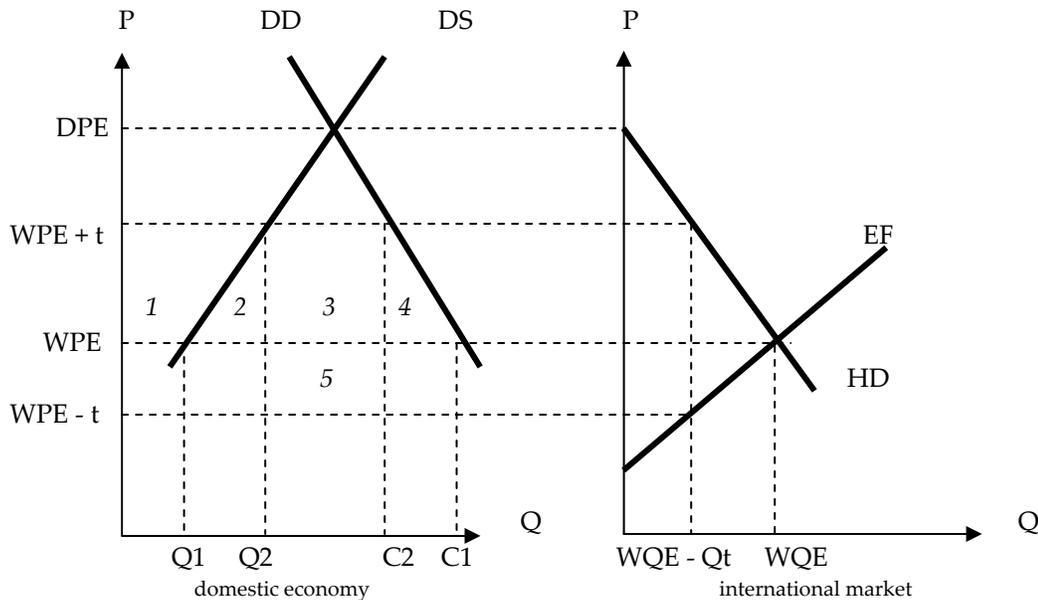
- 6 In the absence of trade barriers, in accordance with the standard trade model, world equilibrium is the result of the interaction between domestic import demand – HD (i.e. derived from the underlying domestic aggregate demand and supply when there is excess of consumer demand over supply) and foreign export supply – EF (i.e. derived from the underlying foreign aggregate demand and supply when there is excess of supply over

## Unit 6

demand) on condition that  $Q_{HD} = Q_{EF}$  (i.e. imports equal exports). Graphically, the import demand curve is downward sloping since a fall in the imported commodity leads to an increase in its quantity demanded. The export supply curve is upward sloping since a rise in the exported commodity leads to a rise in its quantity supplied. Thus, world equilibrium leads to the convergence of relative prices to  $WPE$ :



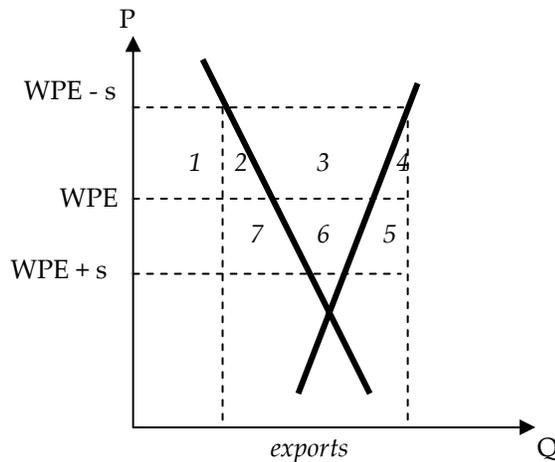
- 7 The imposition of a tariff on imports raises the price in the domestic economy while lowering the price in the foreign economy, thus the volume traded declines. Furthermore, in the domestic economy, production rises while consumption falls and the state increases its revenues. Graphically, given a tax  $t$ , world price increases from  $WPE$  to  $WPE + t$  and the traded quantity falls from  $WQE$  to  $WQE - Q_t$ , thus in the domestic economy imports fall from  $C1 - Q1$  to  $C2 - Q2$ .



The domestic economy has the following gains and losses:

- Gains: the domestic producers receive a higher price thus gaining area 1; since the state collects its revenue from the tariff; its gains are represented by 3 + 5. In terms of trade, the gain is area 5.
- Losses: since the domestic price has increased, the consumer loses areas 1 + 2 + 3 + 4. From a welfare viewpoint, the net cost of a tariff is 2 + 4 - 5 composed of the production distortion (2) and the consumption distortion (4), that is, an efficiency loss equal of areas 2 + 4.

- 8 The payment of an export subsidy will raise the price in the exporting (foreign) economy while reducing it in the importing (domestic) economy. Thus, in the exporting economy production rises while consumption falls and the state loses on revenues. Graphically, given a subsidy  $s$ , in the exporting economy we have:



The foreign economy has the following gains and losses:

- Gains: the producer gains are represented by the areas 1 + 2 + 3.
- Losses: the consumer loss is shown by the area 1 + 2 whereas the state who pays the subsidy will lose areas 2 + 3 + 4 + 5 + 6 + 7.
- Thus the net welfare cost (i.e. compared to a situation of pure competition with no subsidies) is areas 2 + 3 + 4 + 5 + 6 + 7.

C Trade Liberalization

- 9 The use of trade barriers has its adepts and critics:
- In favor of free trade: since the imposition of a tariff, quotas and subsidies lead to losses of efficiency, distortions of economic incentives to both producers and consumers, free trade not only does eliminate these, but also adds further gains from trade in the form of economies of scale and international competition. Moreover, it eliminates the possibility of interest groups to use trade barriers as a weapon to redistribute income to specific sectors of the economy.

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- Against free trade: in this case the cost of a tariff is lower than its benefits, there is an argument for trade barriers, referred to as second best policies, which are applied when first best policies such as monetary and fiscal policies seem unfeasible. In the export sector, the optimal policy seems to be a tax on exports, which raises the prices of exports to foreign economies. Trade barriers can also correct some cases of market failures such as a biased division of labor in favor of one sector rather than other defects in capital markets leading to slow transfers and temporary monopolies. Therefore, so long as all the markets are Pareto efficient, the state need not intervene.

### Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.

VENABLES, ANTHONY (1995) 'International Trade', in MAUREEN MACKINTOSH et al., *Economics and Changing Economies*, Milton Keynes: Open University.

### 30. Monetary regimes and policies <sup>4</sup>

The aim of this session is to

- Explore monetary regime institutions.
- Explore monetary policies.
- Discuss issues with examples.

1 Monetary regimes consist of forums where monetary matters are decided upon. Two institutions were established following the Breton Woods agreement:

#### A The International Monetary Fund – IMF

2 The IMF serves as a forum for the discussion of domestic and international economic issues. The IMF as an international credit institution aims at (Brett, 1985; Ball et al., 2004):

- Ensuring the possibility of one national currency to be available in exchange for another (convertibility problem).
- Specifying the relative values at which national currencies exchange (exchange problem).
- Providing an internationally acceptable and available monetary unit (centre currency problem).
- Guaranteeing the credit required to deal with balance of payments deficit in the short term (financing problem).
- Ensuring that the policies adopted to deal with payment imbalances by states are never such to destroy the integrity of the system as a whole (adjustment problem).

3 To achieve the above aims, the IMF has put into place the following provisions:

- Member contributions: each member is assigned a quota determining both its contributions (1/4 in gold, 3/4 national currency of the quota) and reserve pool.
- Lending facilities: to balance payments a member can use its reserve pool and should it need larger reserves, it may borrow from the Fund.
- Conditionality: this describes the terms for borrowing resources from the Fund. These include deducing public spending, the opening of the economy to private investments, reduction of trade barriers.
- Adjustable parities: in the case of fundamental disequilibrium of the balance of payments a member should consider to devalue its currency.

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<sup>4</sup> Material in this section extracted from W&SU Topical Paper: *Political Issues* © 2000 Panayotis Zamaros.

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- Convertibility: to promote efficient multilateral trade the automatic convertibility of currencies on current account transactions only.

### B International Bank for Reconstruction and Development - IBRD

- 4 The World Bank was founded at the same time as IMF; its purpose has been the development of specific sectors. Thus, IBRD has been involved with the reconstruction of public utilities, with agriculture and other rural matters.
- 5 The bank obtains its funds from paid-in capital subscriptions relative to economic resources. Member countries and private business with state guarantees have the right to request loans to carry out specific projects.
- 6 To carry out its mission the World Bank operates (Ball et al., 2004):
  - The International Finance Corporation (IFC) which acts as an investment bank dealing with private risk ventures.
  - International Development Association (IDA) which offers soft loans (i.e. with longer maturity).

### C Monetary Policies under the Gold Standard

- 7 The gold standard system was adopted between 1870 and 1914 and partially reintroduced after 1918 and 1945 in conjunction with the reserve currency system. It involved the convertibility of currencies into gold that was held as a foreign reserve. The dollar, for instance, was pegged at \$35 the ounce of gold and the pound at £14.58 the ounce in such a way that the \$ / £ exchange rate was constant. Thus all currencies had a symmetrical position relative to their currency convertibility. Moreover, gold standard regulations required that each economy allows the unhindered export and import of gold.
- 8 Under the gold standard to keep prices unchanged, the exchange rate should be kept constant. Thus states viewed external balance not in terms of current account, but as a situation in which no gold was gained nor lost leading to balance of payments equilibrium. In the case of a balance of payments surplus, gold would flow into the economy thus expanding its money supply and increasing demand. This in turn would cause wages and prices to increase leading to a reduction of the balance of payments surplus. A deficit would be the opposite. In practice though, states distorted the mechanism preferring to have a balance of payments surplus rather than a deficit.

### D Monetary Policies under the Breton Woods system

- 9 With the IMF, the monetary policies aimed at avoiding the sharp changes in the balance of payments that occurred under the gold standard (Ball et al., 2004). It involved central banks holding dollars for their international reserves and that the dollar be pegged at \$35 the ounce of gold. Thus the system ensured the exchange rates between currencies be constant.

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However, the system was not of a completely fixed system since individual economies could negotiate an exchange rate when in economic difficulty.

10 Unlike the gold standard, the reserve currency occupied an asymmetrical position referred to as N-1 position whereas the other N currencies occupied a symmetrical position *vis à vis* the reserve currency. Therefore it was believed that:

- Exchange rate changes are a matter of international concern and stability best achieved when rates are pegged in the short run but may be raised when adjustments in the international economy require it.
- States need to have reserves of gold and national currencies to offset the possibility of short run balance of payments deficits.
- Free trade and convertibility of currencies yield to political harmonization and welfare.
- Balance of payment is a shared responsibility of both deficit and surplus states.
- International monetary co-operation is best achieved by means of an international agency.
- The international monetary agency must co-exist with other non-monetary agencies.
- A sustained level of international investments is necessary for the stability of the international economy.
- The flow of private international investment may be facilitated by the creation of an international investment bank.

11 However, the need to acquire dollars for their reserves, led to two sets of difficulties for states:

- Balance of payments crises: since national currencies were pegged to the dollar, any variation of the balance of payments left them either without sufficient reserves or with an excess which resulted in either the depreciation or appreciation of the currency thus undermining the stability convertibility against the dollar had.
- Dollar confidence problem: that the growth of dollar supply resulted in the reserves of gold becoming smaller than the reserves of dollar. Thus the pegging of \$35 per ounce of gold devalued. As a result, confidence in the dollar decreased which led to decreasing exports and inflation.

Thus US macroeconomic policies were seriously undermined and inflation was exported from the US to the other countries. A series of speculative attacks on internal and external balances lead to massive devaluations and worldwide recession in the 1970s.

12 Since the failure of the Bretton Woods system to bring about monetary stability (i.e. low inflation and stable exchange rates), the emphasis is now on managed monetary systems.

E Monetary Policies under the European Union

- 13 As a form of managed monetary system, the European Monetary System was adopted in 1978 as a preliminary to the Monetary Union and seen as a hybrid system between fully flexible and fully fixed exchange rates thus ensuring that European currencies are stabilized with respect to each other. This was due to the view that
- Co-operation gives a heavier weight in international economic negotiations.
  - The fixing of exchange rates is a complement to all the initiatives aiming at setting the European Union and its market.
  - Fixed rates simplify agricultural policies.
- 14 The main element is that all bilateral exchange rates are stabilized within bands (2.25 % until 1993) of the agreed central bilateral rates which were pegged against the German currency. Moreover, the accords provided scope for realignments, that is, to change the agreed central bilateral rates in case of any economic difficulties.
- 15 What underlies this regime is the credibility theory of the European Monetary System (EMS). According to this theory, the political costs of violating an international or regional exchange rate agreement can hinder states from depreciating their currencies in order to gain short-term advantages of economic growths at the long-run costs of higher inflation (Ball et al., 2004). Thus members of EU pegged their currencies to the DM in order to combat inflation since the German economy was generator of a current account surplus. However, the German re-unification caused an asymmetric inflationary shock, that is, inflation grew as a result of increased state expenditure in Germany but not directly in the other members. Germany would have opted for devaluation but on grounds of the credibility theory the other members resisted. Thus German interest rates rose as well in the other members in order to keep the exchange rates within the ERM parity bands.
- 16 Ultimately these tensions brought the system under speculative attack and to a standstill, until replaced by the Euro regime. The Euro is thus managed by the European Central Bank. (Ball et al., 2004)
- 17 Activity: how is the Euro perceived 1) nationally and 2) transnationally? (research and describe findings)

Perceptions:

Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.  
BRETT, E. (1985), *The World Economy*, New York: Macmillan.

## 31. Banking

The aim of this session is to

- Explore demand and supply for money.
- Explore exogenous and endogenous credit creation models.
- Explore the central banking system.
- Discuss issues with examples.
- *Research issues.*

*Class to carry out the relevant activity*

### A Demand and Supply of Money

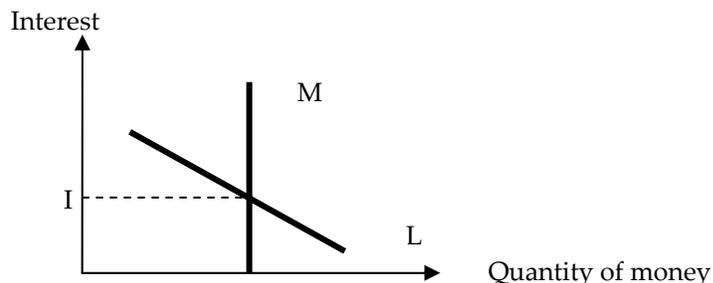
1 The flow of money in an economy is determined by (Dawson, 1995):

- The demand and supply of money relative to the financial needs of consumers and business organizations.
- The demand and supply of the domestic (national) currency in the transnational markets.

2 Demand for money is determined by (Dawson, 1995):

- The needs for financial transactions – paying bills (transactions demand for money).
- The savings given the (employment and financial) risks in the market (precautionary demand for money).
- The speculative purposes through the purchase and sale of bonds (speculative demand for money).

3 The relationship between the demand and supply for money in an economy determines the rate of interest. Graphically, since the supply of money  $M$  does vary in the short run (i.e. is inelastic, the interest  $I$  (without considering risk) is determined at the point where the demand of money is matched by the supply of money through the financial institutions:



4 Supply for money is determined by (Dawson, 1995):

- The multiplier model of credit creation.

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- The national income model of credit creation.

### B Financial Institutions and the Supply of Money

- 5 Banks are financial institutions acting as intermediaries wherein funds are transferred from lenders to borrowers. One typically distinguishes between commercial banks and the central (federal, national) bank, which is the bank for banks.
- 6 Commercial banks are required to hold reserves, assets in the form of funds deposited by the commercial bank in the central bank used for deposit creation – the amount to be deposited is determined by the central bank (legal reserve requirements).
- 7 Multiplier model of credit creation (exogenous model): credit is generated by the state by issuing a certain amount of cash to commercial banks or when banks create credits through the transformation of reserves into bank money through a multiple expansion (fractional reserve banking). Suppose a deposit  $d$  of CHF 1000.- and that the legal reserve requirement (liquidity ratio)  $R$  is 10% and that the difference  $I$  is invested within the banking system (i.e. deposited in another bank): here is the situation

		Assets	Liabilities
Bank 1	R	100	1'000
	I	900	
		1'000	1000
Bank 2	R	90	900
	I	810	
		900	900
Etc			
Bank n	R	1'000	10'000
	I	9'000	
		10'000	10'000

In other words, a deposit of CHF 1'000.- has generated a total flow of CHF 10'000.-, which is the total amount that the banking system has in aggregate. The credit creation system defines the money multiplier, a measure that serves to calculate the stock of money in taking into account the monetary base, i.e. cash in circulation. Thus if the state wishes to increase the supply of money it can either print it or instruct the central bank to engage in open market operations: determine the sale and purchase of state securities (bonds) through lowering or increasing the legal reserve requirements (in case of inflation the lower the legal reserve requirements to bring about a money supply contraction thus a rise in interest).

- 8 National income model of credit creation (endogenous model): credit is generated when commercial banks meet customer demand for loans while taking steps to acquire liquid assets to meet future needs without the interference of the state (through the central bank). Under the profit maximization logic the rate of interest is determined by the demand curve of

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the bank (marginal revenue curve) and its costs (marginal cost curve) i.e. its ability to supply money: thus an increase in national income induces an increase in the supply of money; if the state wishes to control the supply for money it adjusts interest rates.

- 9 Activity: what are the features of the US, UK, EU and Japanese banking systems (research web to prepare and present findings)

Features:

Reference:

DAWSON, GRAHAM (1995) 'Money in Market Economies', in MAUREEN MACKINTOSH et al., *Economics and Changing Economies*, Milton Keynes: Open University.

## 32. Exchange rates <sup>5</sup>

The aim of this session is to

- Explore the exchange rate mechanism.
- Explore floating and fixed exchange rates mechanisms.
- Discuss issues with examples.

### A Exchange Rates Mechanism

1 The exchange rate mechanism is a system characterized by the trade of one currency Pa for another Pb. The rationale behind the mechanism is that the present trade of currencies tells us something about individual's expectations from an economy in the future. The market where currencies are traded is the foreign exchange. And the currency that dominates international contracts - usually the US dollar, is the vehicle currency.

2 Exchange rates are quoted in two ways (Krugman & Obstfeld, 1994; Ball et al., 2004):

- Direct terms (Pa / Pb): the quotation of the domestic currency (Pa) per foreign currency unit (Pb). In other words  $1 = Pa \cdot (x)$  (i.e. it takes x units of currency Pa to purchase 1 unit of currency Pb).
- Indirect terms (Pb / Pa): the quotation of the foreign currency (Pb) per domestic currency unit (Pa). In other words  $1 = Pb \cdot (x)$  (i.e. it takes x units of currency Pb to purchase 1 unit of currency Pa).

Direct quotation is often referred to as American terms, since the US dollar is the usual vehicle currency, whereas the indirect quotation as European terms.

Example: suppose we want to express the quotation relative to the Swiss franc. When speaking of CHF 1.20 / \$, in other words that \$1 = CHF 1.20, the quotation is in direct terms but when speaking of \$0.83 / CHF, in other words that CHF 1 = \$0.83, the quotation is in indirect terms.

3 Depending on the period of exchange we distinguish among (Krugman & Obstfeld, 1994):

- Spot exchange rates: the value of traded of currencies is specified within a short period.
- Forward exchange rates: the value of traded of currencies is specified after a determined period.

4 The following ways are commonly used to transact currencies:

- Swaps: involve a spot sale combined with a forward repurchase of a currency.
- Futures: a promise that a specified amount of foreign currency will be delivered on a specific date.

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<sup>5</sup> Material in this section extracted from *International Relations: a Course* © 1995 Panayotis Zamaros.

- Options: the right to purchase or sell a specified amount of foreign currency at a specified price at any time within a time limit.

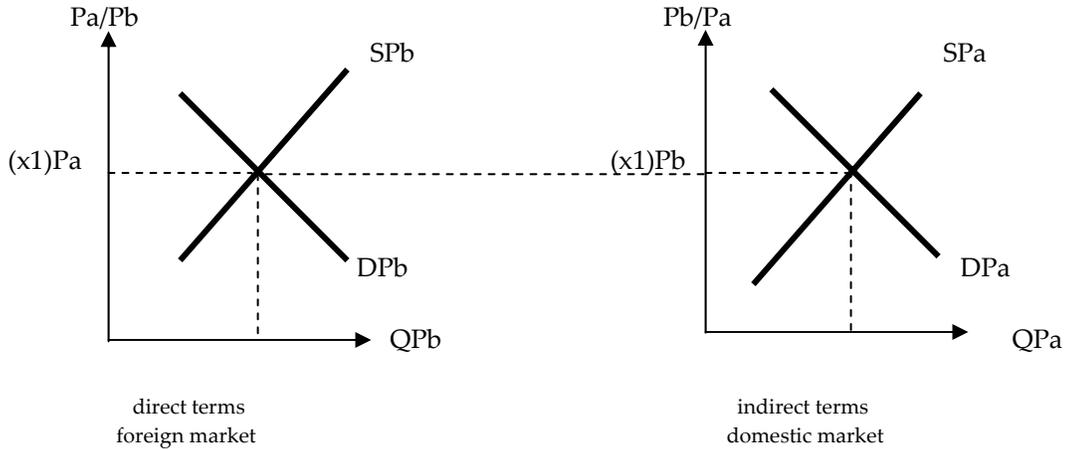
### B Types of Exchange Rate Mechanisms

- 5 In general, one speaks of floating exchange rates when the rates are determined by the demand and supply of currencies in the foreign exchange market, and of fixed exchange rates when the states intervene to adjust the demand and supply of currencies.
- 6 Specifically, one can distinguish among the following mechanisms depending on the degree of state interference (Krugman & Obstfeld, 1994):
  - Free floating: when the exchange rate is freely determined by the interaction of demand and supply of currencies in the foreign exchange market without interference from the state.
  - Dirty floating: when the state intervenes in the foreign exchange market to prevent excessive exchange rate fluctuations.
  - Managed floating: where a group of currencies are fixed to each other but collectively are free to fluctuate against other currencies.
  - Totally fixed: when the state intervenes in order to keep the exchange rate unchanged by pegging their currency to the value of gold or to another currency.
  - Crawling peg: when the state allows a gradual adjustment of the exchange rate by small amounts.
  - Adjustable peg: where exchange rates are fixed for a period of time but may be devalued or revalued should a deficit or a surplus become important.
  - Exchange rate band: when a group of currencies are fixed to each other but collectively are free to fluctuate against other currencies within agreed upon limits.

### C Qualifying Exchange Rates

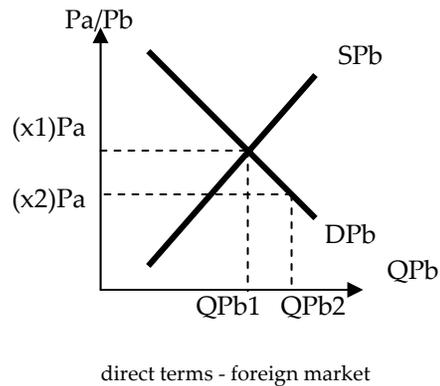
- 7 The nominal exchange rate is the rate at which one currency is traded against another. The quotation expressed in direct terms then is  $e = P_a / P_b$ , and in indirect terms is  $e = P_b / P_a = 1 / (P_a / P_b)$ .
- 8 The exchange rate expressed in direct terms is the result of the interaction between demand and supply for the foreign currency  $P_b$  in the foreign markets (whereas the exchange rates expressed in indirect terms is the result of the interaction between demand and supply of the domestic currency  $P_a$  in the domestic market). Graphically, in direct terms, the demand for a foreign currency  $DP_b$  expresses the desire of the domestic economy to import foreign commodities, hence purchase them abroad, or purchase foreign securities whereas the supply for foreign currency  $SP_b$  expresses the foreigner's wish to acquire domestic commodities. (The reciprocal applies to indirect terms). At the equilibrium we have:

## Unit 6

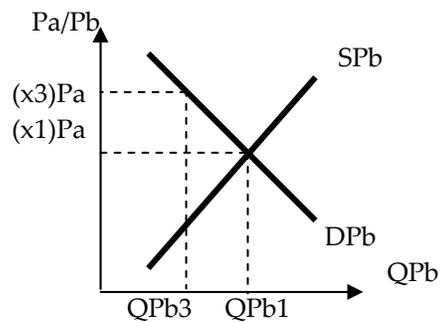


9 In a floating exchange rates mechanism, we distinguish among the following nominal changes in exchange rates:

- Appreciation: there is appreciation when there is a rise in the price of one currency in terms of another. In direct terms, the excess demand of foreign currency  $QPb2 - QPb1$  leads to the appreciation of the domestic currency leading to a fall in the exchange rate in the foreign market from  $(x1)Pa$  to  $(x2)Pa$ . (In indirect terms, the excess supply of domestic currency leads to the appreciation of the domestic currency leading to a rise in the exchange rate in the domestic market). The appreciation of an economy's currency makes its commodities more expensive for foreigners (i.e. the relative price of exports rises) and domestic consumers pay less for foreign products (i.e. the relative price of imports falls).



- Depreciation: there is depreciation when there is a fall in the price of one currency in terms of another. In direct terms, the excess supply of the foreign currency leads to the depreciation of the domestic currency leading to a rise in the exchange rate in the foreign market. (In indirect terms, the excess demand of domestic currency leads to the depreciation of the domestic currency leading to a fall in the exchange rate in the domestic market). The depreciation of an economy's currency makes its commodities cheaper for foreigners: exports are cheaper while imports more expensive.



direct terms - foreign market

- 10 The real exchange rate is the adjusted nominal exchange rate to changes in commodity prices (inflation or deflation) over a period of time. This rate compares commodity baskets based on domestic changes in prices. Given that PA is the price of a commodity basket in the domestic economy and PB that in the foreign economy, we have:  $q = e \cdot (PB / PA)$ .

Example: suppose a German commodity basket worth  $PB = DM100$  and a US commodity basket worth  $PA = \$50$ . Given that the nominal exchange rate is  $\$0.50 / DM$  we have:  $q = (0.50 \times 100) / 50 = 1$  which shows that both commodity baskets have the same value.

- 11 Quoted in direct terms, we distinguish between:
- Real appreciation takes place when there is a rise in  $q$  indicating an increase in the price PB of commodities abroad.
  - Real depreciation takes place when there is a fall in  $q$  indicating a decrease in the price PB of commodities abroad.
- 12 In the fixed exchange mechanism, when the state intervenes in the foreign market in order to influence the exchange rate, we speak of a revaluation when the state decides to increase the value of the domestic currency and devaluation when the state decides to decrease the value of the domestic currency against the foreign currencies<sup>6</sup>.

#### D Interventions

- 13 Considering that there are transactions risks and translation risks involved with exchange rate mechanisms that upset the equilibrium (Ball et al., 2004), restoring the equilibrium involves moving the exchange rates in the opposite direction where the state may choose to control the foreign market by targeting either the supply for the domestic currency (depreciation), or its demand by means of the interest rate (appreciation).
- 14 Another way to intervene in the foreign market is to manage the foreign reserves, where an intervention by the state to prevent the depreciation of the domestic currency brings about a

<sup>6</sup> Devaluation is more common than revaluation.

## Unit 6

decrease in the foreign reserves since the state is purchasing domestic currency in order to reduce the excess supply of the domestic currency.

- 15 The banking system may also carry out sterilization which is a form of intervention involving foreign and domestic asset transactions in opposite directions so as to neutralize the impact of foreign exchange operations on the domestic money supply. Specifically, if the central bank wishes to negate the effect of selling (purchasing) foreign assets, it can purchase (sell) domestic assets in the form of state bonds without affecting its liabilities.

Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.

KRUGMAN, PAUL & OBSTFELD, MAURICE (1994), *International Economics: Theory and Policy*, 3rd edition, New York: Harper Collins.

## **UNIT 7**

### **Competitiveness and transnational forces**

### 33. Positioning a business

The aim of this session is to

- Explore means to position a business organization.
- Consider additional information on a topic.
- *Read issues critically.*
- *Present issues.*

*Class to be divided in three teams to carry out the relevant activities*

- 1 Given the challenges of the transnational environment, be it cultural, technological, political and economic, a business organization needs to position itself i.e. understand the relationships and connections it is a part. This specifically means understanding its relationships with customers, other businesses, state authorities, local communities, education and training providers, and information. To achieve this, an environmental scanning or a business environment analysis is necessary. This involves two approaches:
  - Explore all the main industries and selecting the one to enter:
    - Set aims and objectives
    - Establish the major industries
    - Assess impact of globalization forces on major industries
    - Establish trends and evolution of main industries
    - Select the industry to enter
  - Make an evaluation of supporting and main market to enter:
    - Set aims and objectives
    - Establish the supporting industries
    - Assess impact of globalization forces on supporting industries
    - Set trends and evolution of supporting industries
- 2 Further, a market screening (Ball et al., 2004) is necessary so as to identify and eliminate the less desirable markets and industries, which involves the following stages:
  - Initial screening to identify needs and wants
  - Economic and financial screening to understand the economic forces
  - Political and legal screening to understand the political forces
  - Socio-cultural screening to understand the cultural forces
  - Competitive screening to understand the competitors present in the market
  - Advantages screening to appreciate the competitive and comparative factors
  - Industry screening to understand the make up of supporting industries in the market
  - Final selection to decide upon the market to enter.

The identification of a market is followed by a decision on the method of entry in the market.

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- 3 Activity 1 (team 1): how effective are exporting and licensing (Schulz et al., 2003: pp145-146) as strategies used to ensure an effective positioning of business organizations? (use reading 6 and research web to summarize and present findings)

Exporting:

Licensing:

- 3 Activity 2 (team 2): how effective are franchising and the founding of subsidiaries (Schulz et al., 2003: pp145-146) as strategies used to ensure an effective positioning of business organizations? (use reading 6 and research web to summarize and present findings)

Franchising:

Founding subsidiaries:

- 4 Activity 3 (team 3): how effective are joint ventures and strategic alliances (Schulz et al., 2003: pp145-146) as strategies used to ensure an effective positioning of business organizations? (use reading 6 and research web to summarize and present findings)

Joint venture:

Strategic alliances:

### Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.  
SCHULTZ, MIKE et al. (2003), *International Business: Canada and Global Trade*, Toronto: Nelson.

### 34. Common mistakes

The aim of this session is to

- Examine common pitfalls when going global.
- *Manage time pressure.*
- *Present issues.*

*Class to be divided in four teams to carry out the relevant activities*

- 1 Activity 1 (team 1): what pitfalls do businesses make with regards to costs (Schultz et al., 2003: 216-238) when going global? In what ways can they ensure to avoid them? (use reading 8 and research to present issues)

Costs:

- 2 Activity 2 (team 2): what pitfalls do businesses make with regards to standards (Schultz et al., 2003: 216-238) when going global? In what ways can they ensure to avoid them? (use reading 8 and research to present issues)

Standards:

- 3 Activity 3 (team 3): what pitfalls do businesses make with regards to markets (Schultz et al., 2003: 216-238) when going global? In what ways can they ensure to avoid them? (use reading 8 and research to present issues)

Markets:

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- 4 Activity 4 (team 4): what pitfalls do businesses make with regards to infrastructure (Schultz et al., 2003: 216-238) when going global? In what ways can they ensure to avoid them? (use reading 8 and research to present issues)

Infrastructure:

Reference:

SCHULTZ, MIKE et al. (2003), *International Business: Canada and Global Trade*, Toronto: Nelson.

### 35. Transnational presence through competitive advantage

The aim of this session is to

- Explore global presence.
- Explore “competitive advantage”.
- Identify factors affecting competitive advantage.
- *Organize teamwork.*
- *Present issues.*

*Class to carry out the relevant activities*

- 1 Once having decided to become a global business organization, transnational presence of businesses involves a number of strategies to achieve this and in particular:
  - Establishing distribution arrangements.
  - Establishing offices and manufacturing premises.
  - Hiring local staff.
  - Setting up communication systems and e-commerce.
  - Managing marketing practices.
- 2 Global presence can be achieved through the development of a (strategic) plan that seeks to answer the following questions:
  - Which product can roll out an international business initiative?
  - Which markets should be entered first?
  - What is the best way to enter the market?
  - How quick should the expansion be?
- 3 The aim, overall, is to achieve competitive advantage, that is, when a business outperforms its competitors.
- 4 Activity 1 (team 1): what should a business do to outperform its competitors? (organize teamwork and research to present issues)

Actions:

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- 5 Activity 2 (team 2): In using Canada as a case (Schultz et al., 2003: 82-84), what are the factors giving a nation-state competitive advantage over others? (organize teamwork, use reading 5 and research web to present issues)

Factors:

Reference:

SCHULTZ, MIKE et al. (2003), *International Business: Canada and Global Trade*, Toronto: Nelson.

### 36. Transnational presence through comparative advantage

The aim of this session is to

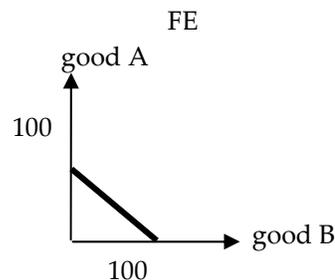
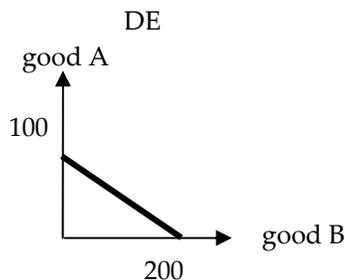
- Explore “comparative advantage”.
- Explore “absolute advantage”.
- Identify sources of comparative advantage.
- Discuss issues with examples.
- Organize teamwork.
- Present issues.

*Class to carry out the relevant activities in three teams*

- 1 As the underlying and maybe most important factor of competitive advantage, comparative advantage (Venables, 1995) of a city, region or nation-state (i.e. the local or domestic economy) in the production of good x refers to the opportunity cost of producing a unit of good x in terms of other goods forgone (i.e. instead of other goods) when this opportunity cost<sup>1</sup> is lower in the local or domestic economy than it is abroad (i.e. in the foreign economy).
- 2 Absolute advantage (Venables, 1995) of the local or domestic economy refers to the absolute advantage it has in the production of good x when it costs fewer resources to produce a unit of good x in the local or domestic economy rather than abroad.
- 3 Establishing comparative advantages: consider the situation when the domestic and foreign economies produce goods A and B in the following quantities (i.e. maximum output mixtures) - production possibility frontier:

	Domestic	Foreign
Good A	100	100
Good B	200	100

The domestic economy uses resources to produce 100 units of good A when none is produced of good B and 200 units of good B when none is produced of good A. The foreign economy uses resources to produce 100 units of good A when none is produced of good B and 100 units of good B when none is produced of good A.



<sup>1</sup> This is the cost for having taken the wrong decision; when one opportunity is chosen rather than others (which are thereby sacrificed) – for example, the cost for building a house instead of taking a long holiday.

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In other words, if the domestic economy has 100 workers, they can produce either 1 unit of good A or 2 units of good B; in the foreign economy the same number of workers can produce either 1 unit of good A or 1 unit of good B – if it had, say, 200 workers, each can produce either 0.5 unit of good A or 0.5 unit of good B.

The opportunity costs relative to good A are:

→ In the domestic economy:  $1A = 2B$

→ In the foreign economy:  $1A = 1B$

In comparing the opportunity costs per product, the domestic economy specializes in the production of good B because the opportunity cost for producing this good is lower than abroad (i.e. can produce twice of good B than abroad).

The opportunity costs relative to good B are:

→ In the domestic economy:  $1B = \frac{1}{2}A$

→ In the foreign economy:  $1B = 1A$

In comparing the opportunity costs per product, the foreign economy specializes in the production of good A because the opportunity cost for producing this good is lower than abroad (i.e. can produce one half of good A more than aboard).

- 4 In other words, with trade, each local or domestic economy specializes in the good in which it is relatively productive and exports that good. Conversely, a good is imported by the local or domestic economy with the lower opportunity cost of producing this good and imported by that with the higher opportunity cost<sup>2</sup>.
- 5 Sources of comparative advantage mainly include (Venables, 1995) differences in technology and in endowments (i.e. stocks of skilled and unskilled labor, capital and other resources of the economy) described through the Heckscher-Ohlin model (Ball et al., 2004) based on two observations:
- Economies differ in the relative quantities of different factors of production with which they are endowed.  
Example: China is relatively endowed with unskilled labor whereas the US with skilled labor.
  - Production of different goods requires the use of factors of production in different proportions (differing factor intensities).  
Example: aircraft production makes intensive use of skilled labor while assembly chains of electronic products demands relatively more unskilled labor.

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<sup>2</sup> In other words, both economies gain from trade.

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- 6 Activity 1(team 1): what endowments give Canada a comparative advantage (Schultz et al., 2003: 59-65)? (organize teamwork, use reading 4 and research to present issues)

Canadian endowments:

- 7 Activity 2(team 2): what endowments give the USA a comparative advantage? (organize teamwork and research to present issues)

US endowments:

- 8 Activity 3(team 3): what endowments give Switzerland a comparative advantage? (organize teamwork and research to present issues)

Swiss endowments:

- 9 Activity: what does the latter example show?

Finding:

Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.  
VENABLES, ANTHONY (1995), 'International Trade', in MAUREEN MACKINTOSH et al., *Economics and Changing Economies*, Milton Keynes: The Open University.

### 37. Factors for national advantage

The aim of this session is to

- Explore Porter's model for national advantage.
- Explore national competitiveness.
- Discuss model and issues with examples.
- *Organize teamwork.*
- *Present issues.*

*Class to have pre-read Reading 2 to carry out the activities in three teams*

1 According to Porter (1995) the determinants and dynamics of national advantage consist in:

- Factor (Supply) conditions (FC): economy's position relative to factors of production (K, L, entrepreneurship) in a given industry.
- Demand conditions (DC): nature of home demand for commodities in a given industry.
- Related (Supporting) industries (SI): related industries that are internationally competitive.
- Domestic (Firm) rivalry (DR): domestic conditions governing how firms are created (legal requirements, policies), organized (structures) and managed (leadership, strategy), and the nature of domestic rivalry.

2 Each determinant is influenced by the others in the following manner (Porter, 1995)

- FC: cluster of domestic rivals; perceived national challenges; domestic demand; transferable factors from related industries.
- DC: sophisticated demand; national image; participation of foreign firms; complementary products.
- SI: specialization of supplies; deepening of suppliers; specialized factor pools.
- DR: early product penetration; factor abundance; sophisticated demand.

3 The reasons for the loss of national advantage include (Porter, 1995):

- Deterioration of factor conditions.
- Local needs not synchronized with global demand.
- Less sophisticated consumers.
- Technological specialization disadvantages.
- Limited rate of investment.
- Less flexibility to adjust.

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- Less domestic rivalry.
- 4 A similar concept to Porter's is national competitiveness referring to the ability of a nation 'to realize economic policy goals, especially the growth of incomes and high levels of employment, without running into balance of payment difficulties' (Auerbach, 1995: 134). Therefore, policies to maintain national competitiveness include
- Decreasing or low unit labor costs.
  - Stable growth rates in labor productivity (to allow rising unit labor costs).
  - Currency devaluation (until the point that neighboring nations adopt the same policy).
  - Interfering with free market practices (tariffs and quotas).
  - Prioritizing the industrial sector.

- 5 Activity 1 (team 1): in using Porter's model, establish the determinants of Canada's national advantage? (organize teamwork and research web to present issues)

Canadian determinants:

- 6 Activity 2 (team 2): in using Porter's model, establish the determinants of US national advantage? (organize teamwork and research web to present issues)

US determinants:

- 7 Activity 3(team 3): in using Porter's model, establish the determinants of Canada's national advantage? (organize teamwork and research web to present issues)

Swiss determinants:

### Reference:

AUERBACH, PAUL (1995), 'International Markets', in MAUREEN MACKINTOSH et al., *Economics and Changing Economies*, Milton Keynes: The Open University.

PORTER, MICHAEL (1995), 'The Determinants and Dynamics of National Advantage', in JOHN DREW (ed.), *Readings in International Enterprise*, International Thomson Business Press.

## **UNIT 8**

### **Transnational management and leadership**

### 38. Transnational management descriptions

The aim of this session is to

- Differentiate management from leadership.
- Explore “management descriptions”.
- Discuss issues with examples.

*Class to carry out the relevant activity*

#### A Management vs. Leadership

- 1 For Kotter (2001) leadership is different from management but ‘the real challenge is to combine strong leadership and strong management and use each to balance the other’. This suggests that even though management and leadership may be examined separately, there are relationships between them; the following:
  - Leadership determining management: establishing a vision and direction for an organization and communicating it so as to influence the behavior of the members of the organization in desired ways, in accordance to set objectives thus restricting management to the performance of tasks so as to fulfill organizational objectives.
  - Management determining leadership: management functions forming a distinct body of knowledge, research and practice require leadership since to fulfill a task direction, vision is necessary: there is disassociation of leadership with positions of authority.
  - Leadership blended with management: all members of an organization are involved with certain aspects of management requiring the exercise of leadership.
- 2 Let us now blend the two first views under the third one to describe management: it can be seen as the set of processes both rational and non-rational, aiming to structure and order the activities of individuals by establishing the most effective, efficient and economical ways possible of deploying resources in order to achieve the purposes of the organization. It is, in other words, about the application of practical knowledge that enables the organization, co-ordination and implementation of business activities.
- 3 The application of management knowledge however entails the exercise of power that is, an ability and opportunity to discursively influence the behavior of the workforce in desired ways and in accordance to the set objectives to use Rose (1996). This is leadership according to Kotter (2001). It is a process that gives a sense of direction, a vision that shapes the short-term or long-term intentions to be reached through change and stability. Moreover, it determines the performance of management functions and specific tasks such as planning, co-coordinating, monitoring and controlling so as to fulfill the organizational objectives.
- 4 One can consider a number of management descriptions (Zamaros, 2004) in a classification of unifying themes<sup>1</sup>:

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<sup>1</sup> This classification is based on the idea that management descriptions describe a concern, management, as a process, hence as an action that is signified and qualified by a management descriptive signature relative to a management descriptive meaning, a content that stems from a particular concern during that action.

- Management has a rational content: management is concerned with the efficient performance of the organization in its whole and its parts to achieve organizational purposes. For this reason organizations need to consider management as a controlled process of thought whose implementation can occur only after the planning phase has been completed. The use of rational analyses enables organizations to put in place structures that clarify responsibilities, and to enable staff, as rational economic agents, to complete work in terms of its extrinsic rewards. In this manner organizational activities are grouped in the same administrative unit, under a single authority whose power stems from personality and the position held. Overall, management is concerned with ensuring that everything occurs in conformity with policy and practice.
  
  - Management has a turbulent content: management is moved by the efficient performance of the organization in an environment that is contingent and characterized by dynamic and changing activities. For Rosenau (1990: 59-60) these activities make up after Emery and Trist the turbulent environment, one in which the degrees of complexity and dynamism are high. To understand the forces that affect organizations, the environment is partitioned so as to minimize its effects and adopting practices to suit the situation, which require from managers to have both a directive and supportive dimension. These practices are aimed at the survival of organizations as they give rise to the most appropriate acts of differentiation and a concern for plurality in the search of options relative to external and internal pressures in the attempt to achieve planned goals. This means that only certain management styles are effective in certain situations, and hence the adoption of ad hoc policies when confronted with a larger and often hostile environment that is complex, and uncertain. Overall, management is concerned with aligning and re-aligning the organization with the environment through networks arising from an interdependence of loosely coupled individual lines of action.
  
  - Management exhibits a cultural content: management is concerned with the values and moral content of social and cultural practices relative to projected or attained acts within a social framework and its particular way of doing. The central role of management is to establish a particular way of understanding, structuring, conducting and talking about business life that is unique to an organization. Management is about affecting the development of the 'right culture' leading to a more effective organization which is the 'condition for success' (Peters & Waterman, 1983: 93). Management is concerned with deriving the norms guiding action from the cultural rules of the local society, which serves the purpose of normalizing the structures of a particular culture. The ensuing organizational culture provides staff with a sense of common direction and guidelines for behavior according to Deal and Kennedy (1997/1991). Management then is about fostering co-operation and commitment through motivation, which means giving employees the autonomy to own the responsibility of their actions. Such transformational practices are concerned with shaping the culture of the group, a culture of teamwork for
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## Unit 8

Wallace and Hall (1997) where values and beliefs relating to norms are shared. This implies the application of knowledge by way of mechanisms, devices and regulatory interventions, including communication of priorities, reactions to crises, role modeling, allocation of rewards, and staff selection for Yukl (1998). Overall, management is concerned with the construction of a single discourse, a view staff can recognize, to internalize the objectives and values of the organization.

- Management displays an emotional content: management focuses on human relations based on the premise that staff are emotional, which means that management action is influenced by the emotions that its members have relative to acts. There is a concern with the emotional content of staff, their personal values, and not only their rational or cultural content. This entails providing staff with opportunities that enable the expression of individual values, rather than those shared, because they are 'relativistic' for Holbrook (1999), in that they depend on individual preferences and changing situations. There is therefore a separate exchange relationship with each individual member of staff in the organization as the two parties mutually define their role – a dyadic role. Management is about ensuring that members of staff feel they are part of the in-group. It is achieved when equity and corrective feedback are emphasized to create a social unit wherein management seeks to promote and cultivate group norms in order to tap the potential for increasing output. For Sparrow (1998) this is about managing by perception. Overall, management is concerned with the development of mutual understanding and learning where common values arise from socialization, democratic principles, and consensual decision-making.
- Management has power content: with Pfeffer (1993) management is influenced by power stemming neither from structure, nor from culture, but rather from the very rationality of management action that is informed by the very acts that management wishes to achieve. Management is about the recognition of the varying interests in any organization, inclusive of the various points of view relative to the concerns under question. At the same time, the achievement of intended acts through the acquisition and use of sources of power, each qualified by its own strategies and tactics. There is a focus on balancing and coordinating the interests of organizational members to work within the constraints set by organizational acts reflecting the interests of stakeholders. This also means that management is a sticky and messy phenomenon, to use Whittington (1993), from where short-term and short-lived acts emerge. Management then tends to evolve in leaps and hence is based on adaptive rationality, the gradual adjusting to environmental turbulence. Overall, management is concerned with locating both temporally and contextually individuals as nodes who are connected by shared concerns at a given moment, leading to an uncontrollable dynamic where conflict is seen as a means to arrive at individual or organizational goals.

- Management displays a discursive content<sup>2</sup>: management is moved by the use of power to convince, to persuade. To use Jones (1998), management action is not determined by the act itself but rather the way both action and acts are convincingly formulated. Management is about constructing a discourse to provide a link between (management) description and practice and those involved by it. This implies the rationalization of successes and failures to sustain and enhance the right to manage by demonstrating such managerial rationality. Further, providing a number of assumptions underpinning management practice in that everything is explicable, and creating a language and practice which enables the construction of an identity. In this way organizational problems are defined and solutions offered, especially when a change in organizational systems is required to meet new challenges. Overall, management is concerned with transforming mentalities and ordinary goals into challenges, in the attempt to raise needs to higher levels of motivation and maturity while striving to fulfill a potential.

5 Activity: summarize each concern (organize teamwork to present each concern)

Notes:

### Reference:

- DEAL, TERENCE & KENNEDY ALLAN (1997/1991), 'Values: The Core of the Culture' pp273-279 in PAUL DU GAY (ed.), *Production of Culture / Cultures of Production*, London and Milton Keynes: Sage / The Open University.
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- ROSENAU, JAMES (1990), *Turbulence in World Politics*, Princeton: Princeton University Press.
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- YUKL, GARY (1998), *Leadership in Organizations*, 4<sup>th</sup> edition, New Jersey: Prentice Hall.
- ZAMAROS, PANAYOTIS (2004), *Myth as a Logical Description of (Management) Experience*, Lausanne: P. Zamaros.

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<sup>2</sup> The view advocated here is not to be confused with the discursive approach, in its radical version, which is often used as a critique aiming at exposing the inherent contradictions residing in management discourses. Here one is concerned with discourse as a means to facilitate management as a process.

### 39. Transnational leadership descriptions 1

The aim of this session is to

- Explore “trait leadership description”.
- Explore “style leadership description”.
- Explore “contingency leadership description”.
- Discuss issues with examples.

#### A Leadership Description 1: Trait

1 Traits, for Bartol and Martin (1998) are seen as distinctive internal qualities that include physical and personality characteristics, skills and abilities and social factors. The trait approach considers that effective leaders are distinct types of people with distinct personality features and that organizations work better when people in managerial positions have designated leadership profiles. Thus, under the trait approach the following traits are central:

- Intelligence: intellectual ability, verbal ability, perceptual ability and reasoning.
- Self-confidence: the ability to be certain about one’s competencies and skills.
- Determination: the desire to get the job done including the characteristics of initiative, persistence, dominance, and drive.
- Integrity: the quality of honesty and trustworthiness, to take responsibility for one’s own actions.
- Sociability: the inclination to seek out pleasant social relationships by being outgoing, friendly, tactful, courteous, and diplomatic.

2 Bartol & Martin (1998) claim that leaders are characterized by intelligence, dominance, aggressiveness and decisiveness. However, this argument may lead to the thought that one is born a leader and thus cannot become one. That is, neglects the idea that leadership is a function of performance.

3 Activity 1: Now carry out the ‘Leadership Trait’ questionnaire (Northouse, 1997: 27-28).

Instructions: The purpose of this questionnaire is to measure personal characteristics of leadership. The questionnaire should be completed for yourself and one other individual (i.e. classmate, team-member). For each adjective listed below, indicate the degree to which you think the adjective describes yourself and the other person. Please select one of the following responses to indicate the strength of your opinion.

Key: 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree. 1 = Strongly Disagree

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1. Articulate - Communicates effectively with others.	1	2	3	4	5
2. Perceptive - Discerning and insightful.	1	2	3	4	5
3. Self-confident - Believes in oneself and one's ability.	1	2	3	4	5
4. Self-assured - Secure with self, free of doubts.	1	2	3	4	5
5. Persistent - Stays fixed on the goal(s), despite interference.	1	2	3	4	5
6. Determined - Takes a firm stand, acts with certainty.	1	2	3	4	5
7. Trustworthy - Acts believable, inspires confidence.	1	2	3	4	5
8. Dependable - Is consistent and reliable.	1	2	3	4	5
9. Friendly - Shows kindness and warmth.	1	2	3	4	5
10. Outgoing - Talks freely, gets along well with others.	1	2	3	4	5

Scoring interpretation: the scores you received on this questionnaire provide information about how you see yourself and how others see you as a leader. There are no best ratings on this questionnaire. The purpose of the instrument is to give you a way to assess your strengths and weaknesses and to evaluate areas where your perceptions are congruent with others and where there are discrepancies.

Your score:

The score for the other person:

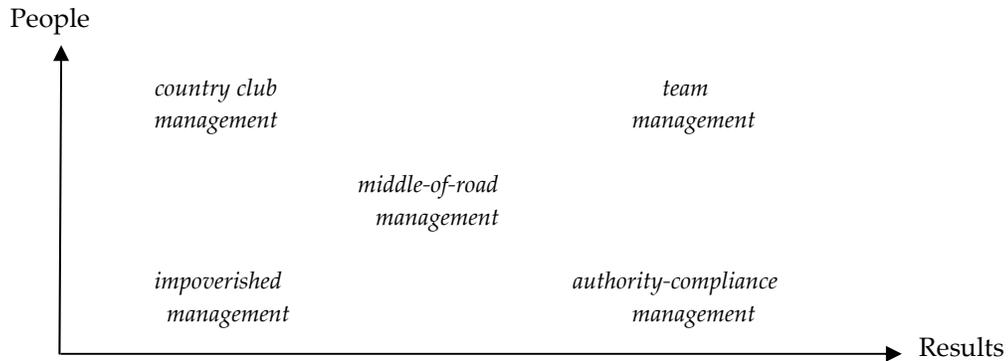
### B Leadership Description 2: Style

- 4 Whereas the trait approach emphasizes the personality characteristics, the style approach emphasizes the behavior of the leader. The latter is distinguished between task behaviors and relationship behaviors.
- 5 With Blake and Mouton (in Bartol & Martin, 1998) who set out a model of managerial behavior called 'Managerial Grid', leaders have two concerns:
  - A concern for production, for organizational tasks and objectives.
  - A concern for people referring to how a leader attends to the members of the organization in the attempt to achieve the organizational objectives.
- 6 The ensuing leadership styles are:
  - Authority-compliance (strong emphasis on task and less on people): results-driven style where people are seen as tools to that end.
  - Country club management (strong emphasis on people and less on task): style stressing attitudes and feelings while making sure that personal needs are met.
  - Impoverished management (little emphasis on people, little on tasks): indifferent and noncommittal style.

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- Middle-of-the-road management (intermediate concern for both people and tasks): a compromising style attempting to avoid conflicts.
- Team management (strong emphasis on both people and tasks): style promoting a high degree of participation while making objectives explicit and getting issues into the open.

7 These concerns are illustrated as follows:



8 The latter is the most desirable leadership approach. But such an orientation might not be the best, as it may not give leaders the necessary flexibility in actual behaviors depending on leader assessment of people and production.

9 Activity 2: Now carry out the 'Leadership Style' questionnaire (Northouse, 1997: 49-50).

Instructions: Read each item carefully and think about how often you and the person you are evaluating engage in the described behavior. Indicate your response to each item by circling one of the five numbers to the right of each item.

Key: 1 = Never; 2 = Seldom; 3 = Occasionally; 4 = Often; 5 = Always

1. Tells group members what they are supposed to do.	1	2	3	4	5
2. Acts friendly with members of the group.	1	2	3	4	5
3. Sets standards of performance for group members.	1	2	3	4	5
4. Helps others feel comfortable in the group.	1	2	3	4	5
5. Makes suggestions about how to solve problems.	1	2	3	4	5
6. Responds favorably to suggestions made by others.	1	2	3	4	5
7. Makes his/her perspective clear to others.	1	2	3	4	5
8. Treats others fairly.	1	2	3	4	5
9. Develops a plan of action for the group.	1	2	3	4	5
10. Behaves in a predictable manner toward group members.	1	2	3	4	5
11. Defines role responsibilities for each group member.	1	2	3	4	5
12. Communicates actively with group members.	1	2	3	4	5

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13. Clarifies his/her own role within the group.	1	2	3	4	5
14. Shows concern for the personal well being of others.	1	2	3	4	5
15. Provides a plan for how the work is to be done.	1	2	3	4	5
16. Shows flexibility in making decisions.	1	2	3	4	5
17. Provides criteria for what is expected of the group.	1	2	3	4	5
18. Discloses thoughts and feelings to group members.	1	2	3	4	5
19. Encourages group members to do quality work.	1	2	3	4	5
20. Helps group members get along.	1	2	3	4	5

Scoring: The style questionnaire is designed to measure two major types of leadership behaviors: task and relationship. Score the questionnaire by doing the following. First, sum the responses on the odd-numbered items. This is your task score. Second, sum the responses on the even-numbered items. This is your relationship score.

### Scoring interpretation:

- Very High Range 41-50
- High Range 31-40
- Moderate Range 21-30
- Low Range 11-20
- Very Low Range 0-10

Your score:

The score for the other person:

## C Leadership Description 3: Contingency

- 10 With Fiedler (in Northouse, 1997) contingency leadership is concerned with both styles and situations in that certain styles will be effective in certain situations: there is dependency on relevant situational characteristics. Situations are thus described along three factors:
- Leader-member relations: the extent to which a leader has the support of group members.
  - Task structure: the extent to which a task is clearly specified.
  - Position power: the amount of power given to the leader.
- 11 Together these factors determine the degree of favorableness of situations. Thus:
- Most favorable situations are when leader-follower relations are good, the tasks are explicitly defined and understood by all and leaders have the authority to decide over reward and retribution.

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- Least favorable situations are those where there is friction and conflict in leader-follower relations, the tasks and objectives are unclear and when the leader has no legitimate authority.
- 12 Individuals who are basically task-motivated will be effective in situations where either events run smoothly or are out of control (very favorable, least favorable). In contrast, leaders who are relationship-motivated will be effective in uncertain situations (moderately favorable).
- 13 Bartol and Martin (1998) note that managers need to rely on additional situational factors, especially critical that affect the extent to which they should involve members in particular decisions.
- 14 Activity 3: now carry out the 'Least Preferred Co-Worker Measure' questionnaire (Northouse, 1997: 85-86).

Instructions: Think of the person with whom you can work least well. He or she does not have to be the person you like least well, but should be the person with whom you had the most difficulty in getting along in class, in teamwork, or other activities. Describe this person as he or she appears to you.

Pleasant	8	7	6	5	4	3	2	1	Unpleasant
Friendly	8	7	6	5	4	3	2	1	Unfriendly
Rejecting	1	2	3	4	5	6	7	8	Accepting
Tense	1	2	3	4	5	6	7	8	Relaxed
Distant	1	2	3	4	5	6	7	8	Close
Cold	1	2	3	4	5	6	7	8	Warm
Supportive	8	7	6	5	4	3	2	1	Hostile
Boring	1	2	3	4	5	6	7	8	Interesting
Quarrelsome	1	2	3	4	5	6	7	8	Harmonious
Gloomy	1	2	3	4	5	6	7	8	Cheerful
Open	8	7	6	5	4	3	2	1	Closed
Backbiting	1	2	3	4	5	6	7	8	Loyal
Untrustworthy	1	2	3	4	5	6	7	8	Trustworthy
Considerate	8	7	6	5	4	3	2	1	Inconsiderate
Nasty	1	2	3	4	5	6	7	8	Nice
Agreeable	8	7	6	5	4	3	2	1	Disagreeable
Insincere	1	2	3	4	5	6	7	8	Sincere
Kind	8	7	6	5	4	3	2	1	Unkind

Scoring interpretation: your final LPC score is determined by adding up the numbers you circled on all of the 18 scales. If your score is 57 or below, you are a low LPC, which suggests that you are task motivated. If your score is within the range of 58 to 63, you are middle LPC which means you are

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independent. Individuals who score 64 or above are called high LPCs and they are thought to be more relationship motivated. Because the LPC is a personality measure, the score you get on the LPC scale is believed to be quite stable over time and not easily changed.

The score for the other person:

Reference:

BARTOL, KATHRYN & MARTIN, DAVID (1998), *Management*, 3<sup>rd</sup> ed., New York, McGraw-Hill.  
NORTHOUSE, PETER (1997), *Leadership: Theory and Practice*, London, Sage.

**40. Transnational leadership descriptions 2**

The aim of this session is to

- Explore “path-goal leadership description”.
- Explore “transactional” and “transformational” descriptions.
- Discuss issues with examples.

A Leadership description 4: path-goal

- 1 Path-goal leadership is concerned with how leaders motivate members for the achievement of tasks. In contrast to the situational approach where leaders must adapt to the development level of other members and unlike the contingency approach where there is a match between leadership style and situation, here we are examining the relationship between leadership style, members’ characteristics and work setting.
  
- 2 With House and Mitchell (in Northouse, 1997) the following leadership behaviors can help members along their path to their goals according to members’ needs (affiliation, structure, control, task ability) and work situation (design of task, authority system, structure):
  - Directive: leaders give members instructions and guidelines as well as set clear standards of performance.
  - Supportive: leaders attend to the well-being of members while treating them as equals.
  - Participative: leaders invite members share in decision-making processes thus consult and integrate any suggestions made.
  - Achievement-oriented: leaders challenge members to perform work at the highest level possible.
  
- 3 Activity 1: now carry out the ‘Path-goal Leadership’ questionnaire’ (Northouse, 1997: 105-106).

Instructions: This questionnaire contains questions about different styles of path-goal leadership. Indicate how often each statement is true of your own behavior. Answer these for yourself and another person (i.e. classmate, team-member)

Key: 1 = never; 2 = hardly ever; 3 = seldom; 4 = occasionally; 5 = often; 6 = usually; 7 = always

1. I let employees know what is expected of them.	1	2	3	4	5	6	7
2. I maintain a friendly working relationship with employees.	1	2	3	4	5	6	7
3. I consult with employees when facing a problem.	1	2	3	4	5	6	7
4. I listen receptively to employees' ideas and suggestions.	1	2	3	4	5	6	7
5. I inform employees about what and how it needs to be done.	1	2	3	4	5	6	7
6. I let employees know that I expect them to do at their highest level.	1	2	3	4	5	6	7
7. I act without consulting my employees.	1	2	3	4	5	6	7

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8. I do little things to make it pleasant to be a member of the group.	1	2	3	4	5	6	7
9. I ask employees to follow standard rules and regulations.	1	2	3	4	5	6	7
10. I set goals for employees' performance that are quite challenging.	1	2	3	4	5	6	7
11. I say things that hurt employees' personal feelings.	1	2	3	4	5	6	7
12. I ask for suggestions from employees.	1	2	3	4	5	6	7
13. I encourage continual improvement in employees' performance.	1	2	3	4	5	6	7
14. I explain the level of performance that is expected of employees.	1	2	3	4	5	6	7
15. I help employees overcome problems.	1	2	3	4	5	6	7
16. I show that I have doubts about meeting most objectives.	1	2	3	4	5	6	7
17. I ask employees for suggestions on assignments.	1	2	3	4	5	6	7
18. I give vague explanations of what is expected of employees.	1	2	3	4	5	6	7
19. I consistently set challenging goals for employees to attain.	1	2	3	4	5	6	7
20. I behave in a manner that is thoughtful of employees' needs.	1	2	3	4	5	6	7

### Scoring:

Reverse the scores for items 7, 11, 16, and 18.

- Directive Style: Sum of scores on items 1, 5, 9, 14, and 18.
- Supportive Style: Sum of scores on items 2, 8, 11, 15, and 20.
- Participative Style: Sum of scores on items 3, 4, 7, 12, and 17.
- Achievement-oriented: Sum of scores on items 6, 10, 13, 16, and 19.

### Scoring interpretation

- Directive style, a common score is 23; high scores above 28; low scores below 18.
- Supportive style, a common score is 28; high scores above 33; low scores below 23.
- Participative style, a common score is 21; high scores above 26; low scores below 16.
- Achievement-oriented style, a common score is 19; high scores above 24; low scores below 14.

The scores you received on the path-goal questionnaire provide information about which style of leadership you use most often and which you use less frequently. In addition, these scores can be used to assess your use of each style relative to your use of the other styles.

According to the principles of path-goal theory, if your scores matched these hypothetical scores, you would be effective in situations where the tasks and procedures are unclear and your employees have a need for certainty. You would be less effective in w & settings that are structured and unchallenging. In addition, you would be moderately effective in ambiguous situations with employees who want control.

Lastly, you would do very well in uncertain situations where you could set high standards, challenge employees to meet these standards, and help them feel confident in their abilities.

Your score:

The score for the other person:

B Leadership Description 5: Transactional and Transformational

- 4 Transactional leadership occurs when leaders approach followers with a transaction in mind: to get compliance in terms of effort, productivity and loyalty in exchange for rewards whether economic, political, or psychological. This means that leaders recognize the basic needs and wants of followers but given the priority on tasks; the roles are assigned according to the planned outcomes. Following Bass (in Yukl, 1998) transactional leadership is the behavior that involves:
- Contingent reward: to clarify the work required to obtain rewards and the use of incentives and contingent rewards to influence motivation.
  - Passive management by exception: to use contingent punishments and corrective actions in response to obvious deviations from acceptable performance standards.
  - Active management by exception: to monitor subordinates and take corrective action to ensure that work is done effectively.
  - Laissez-faire: to show passive indifference about the task and subordinates.
- 5 Transformational leadership occurs when leaders attempt to raise participants' needs to higher levels of motivation and maturity while striving to fulfill their potential. There is a focus on motivation in a visionary way to give a sense of direction and by engaging thoughts and feelings of participants. To do so, leaders need to capture a team's imagination so as to transform ordinary goals into challenges. Following Bass (in Yukl, 1998) transformational leadership is the behavior that involves:
- Idealized influence: to arouse strong follower emotions and identification with the leader.
  - Intellectual stimulation: to increase awareness of problems and influences followers to view problems from a new perspective.
  - Individualized considerations: to be supportive and encourage followers.
  - Inspirational motivation: to communicate a vision through symbols to focus subordinate effort and the modeling of appropriate behaviors.
- 6 To arrive at transforming followers, Bass attributes this to the transforming power of leaders by means of three influence processes namely, legitimate authority, exchange and inspiration. The transformational leader seeks to change the subjectivities of followers and not simply create a high-quality exchange which can only happen to those subordinates who are part of the in-group. In other words a transformational leader seeks to influence the assumptions and beliefs about the world that followers hold so as to become shared. A transformational leader therefore is concerned with shaping the culture of the group according to Schein (in Yukl, 1998). In particular, he identifies five main mechanisms for reinforcing organizational cultural aspects:

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- Attention: leaders communicate their priorities, values and concerns through specified channels of communication.
  - Reactions to crises: leaders prioritize over values.
  - Role modeling: leaders communicate values and expectations by their own actions.
  - Allocation of rewards: leaders allocate rewards in formal ceremonies.
  - Criteria for selection and dismissal: leaders set the criteria based on the values of the organization.
- 7 In addition, secondary mechanisms are also at play and include the design of systems and procedures, the design of organizational structure, and the design of facilities, the use of stories and legends, and making formal statements of values.
- 8 The above show that transactional and transformational leadership behaviors (tends to) stand in opposition. Under the transactional approach, the locus of power is the leader whereas with transformational leadership the leader devolves this power to the followers so as to shift the locus in them. In other words, in the first case there is a power asymmetry whereas at the latter a power symmetry. One can however argue, albeit in a weak form, that transactional and transformational leadership styles are distinct but not mutually exclusive processes, while recognizing that the same leader may use both types of leadership at different times in different situations.
- 9 Activity 2: now complete the ‘Multifactor Leadership’ questionnaire’ (Northouse, 1997: 155-156).

Instructions: This questionnaire provides a description of your leadership style. Twenty-one descriptive statements are listed below. Judge how frequently each statement fits you and another person (i.e. classmate, team-member). The word others may mean your classmates, friends, followers, clients, or group members.

Key: 1 = once in a while; 2 = sometimes; 3 = fairly often; 4 = frequently

1. I make others feel good to be around me.	1	2	3	4
2. I express with a few simple words what we could and should do.	1	2	3	4
3. I enable others to think about old problems in new ways.	1	2	3	4
4. I help others develop themselves.	1	2	3	4
5. I tell others what to do if they want to be rewarded for their work.	1	2	3	4
6. I am satisfied when others meet agreed-upon standards.	1	2	3	4
7. I am content to let others continue working as always.	1	2	3	4
8. Others have complete faith in me.	1	2	3	4
9. I provide appealing images about what we can do.	1	2	3	4
10. I provide others with new ways of looking at puzzling things.	1	2	3	4

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11. I let others know how I think they are doing.	1	2	3	4
12. I provide recognition/rewards when others reach their goals.	1	2	3	4
13. As long as things are working, I do not try to change anything.	1	2	3	4
14. Whatever others want to do is O.K. with me.	1	2	3	4
15. Others are proud to be associated with me.	1	2	3	4
16. I help others find meaning in their work.	1	2	3	4
17. I get others to rethink ideas that they had never questioned before.	1	2	3	4
18. I give personal attention to others who seem rejected.	1	2	3	4
19. I call attention to what others can get for what they accomplish.	1	2	3	4
20. I tell others the standards they have to know to carry out their work.	1	2	3	4
21. I ask no more of others than what is absolutely essential.	1	2	3	4

Scoring: The MI-Q-6S measures your leadership on seven factors related to transformational leadership. Your score for each factor is determined by summing three specified items on the questionnaire. For example, to determine your score for Factor 1, Idealized Influence, sum your responses for items 1, 8, and 15. Complete this procedure for all seven factors.

- Factor 1. Idealized influence (items 1, 8, & 15)
- Factor 2. Inspirational Motivation (items 2, 9, & 16)
- Factor 3. Intellectual Stimulation (items 3, 10, & 17)
- Factor 4. Individualized Consideration (items 4, 11, & 18)
- Factor 5. Contingent Reward (items 5, 12, & 19)
- Factor 6. Management-by-exception (items 6,13, & 20)
- Factor 7. Laissez-faire Leadership (items 7, 14, & 21)

Score Range: High = 10-12, Moderate = 7-9, Low = 4-6

Your score:

The score for the other person:

### Score interpretation

- Factor 1. Idealized influence indicates whether you hold subordinates' trust, maintain their faith and respect, show dedication to them, appeal to their hopes and dreams, and act as their role model.
- Factor 2. Inspirational motivation measures the degree to which you provide a vision, use appropriate symbols and images to help others focus on their work, and try to make others feel their work is significant.
- Factor 3. Intellectual stimulation shows the degree to which you encourage others to be creative in looking at old problems in new ways, create an environment that is tolerant of seemingly extreme positions, and nurture people to question their own values and beliefs and those of the organization.
- Factor 4. Individualized consideration indicates the degree to which you show interest in others' well-being, assign projects individually, and pay attention to those who seem less involved in the group.

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- Factor 5. Contingent reward shows the degree to which you tell others what to do in order to be rewarded, emphasize what you expect from them, and recognize their accomplishments.
- Factor 6. Management-by-exception assesses whether you tell others the job requirements, are content with standard performance, and are a believer in "If it ain't broke, don't fix it."
- Factor 7. Laissez-faire measures whether you require little of others, are content to let things ride, and let others do their own thing.

10 Activity 3: share your findings with the rest of the class (note the leadership attributes).

Notes:

Reference:

BARTOL, KATHRYN & MARTIN, DAVID (1998), *Management*, 3<sup>rd</sup> ed., New York, McGraw-Hill.

NORTHOUSE, PETER (1997), *Leadership: Theory and Practice*, London, Sage.

YUKL, GARY (1998), *Leadership in Organizations*, 4<sup>th</sup> edition, New Jersey, Prentice Hall.

## 41. Transnational strategy

The aim of this session is to

- Explore strategic management.
- Discuss issues with examples.

### A Strategic Management

- 1 Well run organizations develop and follow strategies which are large scale action plans for interacting with the environment in order to achieve long term goals. A comprehensive statement of an organization's strategies, along with its mission statement and goals, constitute its strategic plan.
- 2 Strategic management then is a process through which management formulates and implements strategies geared towards optimizing strategic goals achievement, given available environmental and internal conditions.
- 3 The strategic management process comprises the following components (Ball et al., 2004) – *see appended chart*:
  - Strategy formulation that involves:
    - Identifying the organization's mission and strategic goals
    - Analyzing the competitive situation ( SWOT analysis )
    - Considering the environmental and internal factors
    - Develop or formulate strategies to reach strategic goals.
  - Strategy implementation that involves carrying out strategic plans and maintaining control on how those plans are carried out.
- 4 Strategic management is important for business organizations because it helps them identify and develop competitive advantage. It also provides a sense of direction so that organization members know where to expend their efforts and highlights the need for innovation while providing an organized approach for encouraging new ideas related to strategies.
- 5 Planning methods used in strategic management include (Ball et al., 2004):
  - Top-down planning where the planning details are decided by the management team.
  - Bottom-up planning where departments and divisions are responsible for planning.
  - Iterative planning that combines top-down and bottom-up methods very often set in cycles.

B Competitive Analysis

5 Before being able to devise an effective strategy for gaining a competitive edge, managers need to carefully analyze the organization's competitive situation. Such an assessment can be made through a SWOT analysis that involves assessing (Hannagan, 1998a):

- Strengths: internal features that have the potential of improving the organization's competitive situation.
- Weaknesses: internal features that leave the organization potentially vulnerable to strategic moves by competitors.
- Opportunities: environmental conditions that offer significant prospects for improving an organization's position relative to its competitors.
- Threats: environmental conditions that offer significant prospects for undermining an organization's competitive situation.

Assessing strengths and weaknesses involve carrying out an internal audit; assessing opportunities and threats, an external audit.

6 Internal audits involve understanding the financial, physical, human and organizational assets used in producing goods and services. In the process of assessing the competitive implications of their resources and capabilities relative to their environments, organizations must ask questions related to four major factors of particular importance.

- Value – do the resources and capabilities of a firm add value by enabling it to exploit opportunities while neutralizing threats?
- Rareness – how many competing firms already possess those valuable resources and capabilities?
- Imitability – does the firm without resources or capability face a cost disadvantage in obtaining it compared to firms that already possess it?
- Organization – is the firm organized in a manner to use the full competitive potential of its resources and capabilities?

7 External audits, in the same lines as business environment analysis (see session 33), involve understanding the effect of environmental forces (i.e. technology, economy, legal-political, socio-cultural), as well as the role of the actors present in the environment (customers, suppliers, competitors, GOs and NGOs). The competitive forces model is a typical tool developed by Porter (in Hannagan, 1998b; Ball et al., 2004) for analyzing the nature and intensity of competition in a given industry in terms of five major forces driven by:

- Competitors
- Customers
- Suppliers
- New entrants
- Substitutes

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### C Strategy Formulation

- 8 Following a SWOT analysis, strategy formulation involves describing the desired direction and the objectives to be reached through the following typical approaches (Hannagan, 1998b):
- Grand strategy approach: an approach for providing the basic strategic direction at the corporate level focusing on:
    - Growth strategy: organizational expansion.
    - Stability strategy: maintaining the status quo or growing in a methodical but slow manner.
    - Defensive strategy: focus on the desire or need to reduce organizational operations, usually through cost and / or asset reduction.
  - Portfolio strategy approaches: a method of analyzing existing or potential strategic business units:
    - BCG growth-share matrix: assessing the relation between market share and market growth rate.
    - Product-market evolution matrix: assessing the relation between business strength or competitive position of an organization and the evolution of a product or its market (i.e. life cycle).
  - Generic strategy approach – Porter (in Hannagan, 1998): an approach for formulating strategies in a variety of situations:
    - Cost leadership strategy: emphasizing on organizational efficiency so that the overall costs of providing products or services are lower than those of the competitors; careful attention must be paid to minimizing necessary costs in every aspect of the business, this entails being *the* cost leader, not just one of several.
    - Differentiation strategy: attempting to develop products or services that are viewed as unique in the industry; careful attention must be paid to customers shifting requirements (price, tastes).
    - Focus strategy: specializing by establishing a position of overall cost leadership, differentiation, or both, but only within a particular portion or segment of an entire market.

### D Strategy Implementation

- 9 Several major internal aspects of the organization need to be synchronized in order to put a chosen strategy into action:
- Technology: the knowledge, tools, equipment and work techniques used by an organization in delivering its products or services. Organizational strategies at all levels must consider the technical function of the business. Low cost strategy may involve

change in technology to reduce costs, and differentiation may involve technological changes in order to develop and produce enhanced products or services.

- Human resources: having the individuals with the necessary skills in the appropriate positions is a pre requisite for effective strategy implementation. Strategic human resources planning must be conducted, linking needs with strategies. Skills and experience are also a source of competitive advantage, and a skilled work force has a greater ability to reduce costs or produce new products or services.
- Decision process: issues of resource allocation are particularly important to strategy implementation because strategic plans are more likely to be successful when the resources they call for are readily available.
- Structure: organizational structure is the formal pattern of interactions and coordination designed by management to link tasks of individuals and groups in achieving organizational goals. It helps various parts of the organization coordinate their efforts and strategies, which is more successful when the structure supports the strategic direction.
- Strategic control: through strategic control manager will be able to monitor progress. It involves monitoring the environment to detect factors that could affect the viability of the strategic plan. It also includes designing information systems that provide feedback on the implementation of the strategies and their apparent effects. It will help managers to make adjustments as necessary.

### E Strategy Evaluation

- 10 Strategy evaluation can be seen as an appraisal of how well the organization is performing given the changes it has effected. In other words, it is about comparing what is happening now that new ways of thinking and doing have been institutionalized with the objectives and outcomes that were expected to come about when the strategic plan was being set. One is therefore concerned with the effectiveness of organizational strategy.
- 11 Strategy evaluation consists in the following aspects:
- Strategy audit to assess the strategy itself.
  - Re-adjustment phases to bring about improvements.
  - Strategic management audit to assess the strategic management process proper.

#### Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.  
DAVID, FRED (1995), *Strategic Management*, 5<sup>th</sup> edition, Prentice Hall International Editions.  
HANNAGAN, TIM (1998a), 'Marketing', in TIM HANNAGAN (1998), *Management: Concepts and Practices*, 2<sup>nd</sup> edition, London: FT-Pitman Publishing.  
HANNAGAN, TIM (1998b), 'Strategic Management', in TIM HANNAGAN (1998), *Management: Concepts and Practices*, 2<sup>nd</sup> edition, London: FT-Pitman Publishing.

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### 12 Appendix: strategic management chart

MAIN STAGES	EVOLUTIONARY PHASES	PROCESS FEEDBACK	STRATEGY DOCUMENTS
	Preparation		
	Vision building		Mission statement
Organizational scanning	External audit		External success indicators
	Internal audit		Internal success indicators
Strategy development	Synthesis		SWOT analysis
	Decision	Organizational scanning audit	Strategy analysis
	Formulation		Strategic plan
	Development		Development plan
Strategy implementation	Transformation	Strategy development audit	Research tools
	Institutionalization	Strategy implementation audit	Research tools
Strategy evaluation	Strategy audit		
	Readjustment		
		Strategic management audit	Research tools

## **UNIT 9**

### **Transnational sales and marketing**

## 42. Transnational marketing

The aim of this session is to

- Explore marketing.
- Explore the key features of the market.
- Discuss issues with examples.

### A Marketing

- 1 Marketing, in general terms, is concerned with finding and retaining customers by solving customers' problems. Marketing communicates to the customers that their problems can and will be solved by maintaining a trade-off balance among problems, solutions and customer needs (Kotler and Armstrong, 2001).
- 2 Marketing oriented companies employ the marketing concept, which emphasizes the organization's ability to create products and services based on the needs of the customer with whom marketing activities begin and end; it is a way of thinking to create customer value.
- 3 Business organizations that display a vision for the future together with a systematic planning process exhibit marketing leadership i.e. the set of actions whereby the marketing concept is facilitated within the organization.
- 5 Marketing implies running an organization according to the requirements of the market i.e. all the organization activities must meet consumer needs: organizations produce what can be sold and do not sell what can be produced. It means searching for and reaching the optimal market for the benefit of both the organization and the consumer<sup>1</sup>.
- 6 Marketing is a methodology of action that involves (Paliwoda & Thomas, 1998):
  - Planning:
    - Determining the information.
    - Collecting information that ought to be meaningful without being necessarily abundant.
    - Analyzing information to draw basic patterns and trends.
    - Presenting information clearly, schematically, and in a format that eases utilization.
    - Comparing information with organization financial and human possibilities.
    - Setting a policy and setting quantitative and qualitative objectives.
  - Implementing:
    - The best ways to reach the objectives i.e. and adequate strategy.
    - Organizing this strategy in a marketing program (who does what, how, when, at what price).

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<sup>1</sup> The American Marketing Association has defined marketing as “the process of planning, executing conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives.”

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- Informing the various departments on what has been decided.
- Managing, advising, coordinating, motivating collaborators.

➤ Measuring:

- Measuring results; diagnosis.
- Analyzing situations, checking the actions and adjusting if necessary; adapting the product to consumers' tastes and competition.

- 7 If knowing how to sell is as important as is knowing how to produce, to develop marketing in the organization a number of functions need to be coordinated so that the marketing team has the necessary authority to manage the marketing plan. Marketing cannot remain isolated but should not dominate the other functional areas of management (i.e. production, finance, people, and strategy). Thus, to play this dual role (i.e. scanner and tool for adjusting the business to its market) it is necessary that marketing as an internal organization (i.e. department) is placed on the same hierarchical level as the other departments and be provided with the necessary means to collect data, advertise, promote and train employees to be in contact with customers and have a budget (Kotler and Armstrong, 2001).

### B Market

- 8 After Kotler and Armstrong (2001), a working definition of the market could be a group of persons and organizations identified through a common need and with resources to satisfy that need; a market is also the place where salespeople and buyers meet: the organization and its representatives, its competitors and its clients. Simply put it is the meeting place of demand and supply.
- Supply refers to the quantity of products for sale and the characteristics of the products on offer (quality, type, and price).
  - Demand refers to the set of needs and wants to purchase a product at a given price (intention and frequency).
- 9 Marketing is based on the knowledge of the market and its needs (Paliwoda & Thomas, 1998). Typically it seeks to understand its customers, their needs, that which can be sold, the ways of selling and the price of sale. To achieve this, the business organization must know:
- The market potential in relation with the products (services) that can be supplied by the organization: what is the demand? (sales potential)
  - The location of potential buyers, according to the needs to be met: where are they? (Local, foreign buyers).
  - The best distribution channel to reach buyers: who are the possible intermediaries?
  - The price that should be set: how much is a customer willing to pay? (market price)

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- 10 On the main, marketing activities consist in gathering data enabling to determine as precisely as possible the organization market and foresee the evolution of this market, of its competition and its environment.
- 11 Understanding the firm's market structure is a prerequisite to marketing activity, hence the importance of understanding demographic data to define a market according to the following types: product, demand, clientele, structure, location, constraints, and share; here is an example from the hospitality industry:
- |                                      |   |
|--------------------------------------|---|
| - The product offered:               | type of hotel, restaurant, type of service, category            |
| - Demand:                            | Size, frequency, duration, season, behavior.                    |
| - Clientele:                         | holiday, health, business tourism, convention, seminars         |
| - The structure of the market:       | tour-operators, travel agencies, representatives, sales offices |
| - Location of demand:                | region, country   |
| - Market constrains:                 | laws, policies, politics, currency fluctuations, inflation      |
| - Market share for the organization: | volume of sales   |
- 12 One of the most important marketing principles is that there are no static markets: they appear, develop, alter, decline and finally disappear. The reason lies with the economic environment, where technical and social progress, fashion, competition affect the market dynamics (Kotler and Armstrong, 2001). In particular:
- The rise of purchasing power together with growing urbanization and its social consequences such as deracination and isolation have been very positive for the restaurant and leisure markets.
  - The emergence and increase in disposable income affects society, technology and culture; a decrease therein influences the number and the quality of the goods or services purchased.
  - Changes in society offer a unique opportunity to businesses eager to attract new customers, whereas those who overlook these changes may see their business decline and disappear.
- 13 Markets are also sensitive to more incidental factors, which are difficult to forecast: an oil crisis, a monetary crisis, the rise or fall of the dollar, or stock market, political and environmental problems.

### Reference:

KOTLER, PHILIP & ARMSTRONG, GARY (2001), *Principles of Marketing*, 9<sup>th</sup> edition, New Jersey: Prentice Hall.  
PALIWODA, STANLEY & THOMAS, MICHAEL (1998), *International Marketing*, 3<sup>rd</sup> edition, Oxford: Butterworth-Heinemann.

### 43. Transnational consumer profile

The aim of this session is to

- Explore customers.
- Establish the elements making up customer profiles.
- Discuss issues with examples.

*Class to be divided in three teams to carry out the relevant activity*

#### A Customers

- 1 Products are not chosen by “markets” but by individuals and therefore to meet individual’s needs, business organizations must have a thorough understanding of their customers. In particular when their tastes change, their standards of living rise, they are better informed, and are becoming more demanding, they are more experienced, more critical and not as credulous as one would sometimes hope, they are looking for adventure or new experiences, and they seek recognition.
- 2 Customers do not buy products or services just for what they are; they wish to acquire psychological and social satisfactions through their purchases, and hence purchase products for their accessory benefits rather than for their functional qualities or prices: these should therefore be considered from a wider angle and brought to together to constitute customer profiles.

#### B Consumption

- 3 Consumption is a cultural event (i.e. a particular way of thinking and doing relative to consumption), and therefore a function of the following consumer variables:
  - Values
  - Myths
  - Symbols
  - Rituals
  - Contexts
  - Principles
- 4 In particular, cultural rituals consist in behaviors that involve repetition in a relatively fixed sequence they are the enactment of myths and values inclusive of the consumption of commodities – consumer rituals; for this reason they are important for product positioning. Consumer rituals include (Arnould et al., 2003):
  - Possession rituals involving moving commodities from the locus of purchase (i.e. market place) to the locus of consumption (i.e. house or workplace).  
Example: transferring products from the nearby store

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- Grooming rituals involving the transition from the private locus to the public and vice versa.  
Example: dressing up to go to work.
- Divestment rituals involving the relinquishing of products.  
Example: recycling used products.
- Exchange rituals involving the substitution and changeover of commodities – these include rites of passage (i.e. changes in social status).  
Example: gifts on birthdays; specific food on particular occasions (e.g. moon cakes for Chinese Midsummer festival, almond cookies – *kourambiedes* for Christmas in Greece etc.)

### C Elements of customer profiles

- 5 Demographics: on an objective level they give statistical information of a population or of a sample of a population; data include:
- Age
  - Gender
  - Place of residence
  - Place of employment
  - Social and professional position
  - Occupation
  - Purchasing power, income
  - Seasonal trends
  - Unemployment
  - Special interests and lifestyle
- 6 Psychographics: on a subjective level they give information on needs, motivations and interests influencing purchasing decisions; the following theories describe subjective behaviors:
- Pleasure-pain theory: purchasing decisions determined by a desire to either achieve pleasure or avoid pain.
  - Hierarchy of needs theory Maslow (in Cooper, 1998): purchasing decisions determined by the nature of needs being satisfied at an established level (i.e. hierarchy); in particular:
    - Physiological: hunger, thirst, and shelter; moreover, seeking pleasure, satisfaction, and physical well-being, resting and recuperating, comfort, relaxation, peace; hedonism.
    - Security: freedom from danger; moreover, keeping away from problems, worries and troubles, feeling safe in a familiar, stable and hospitable location, buying quality products at the best price, or at a set price (no surprises).
    - Relationship: belonging to a community; moreover, loving and being loved, pleasing others, offering, being welcomed, making friends, forging bonds.

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- Esteem: recognition and achievement; moreover, ambition, pride, feeling of power, gaining consideration, social status.
  - Self-actualization: self-fulfillment; moreover, knowing, understanding, to be cultivated, to live new experiences, yearning for beauty, harmony, balance, good taste, refinement, escapism.
- Rational-emotional theory: purchasing decisions determined by practical, rational and logical considerations and at the same time, sentimental, fun-loving and emotional considerations.
- 7 Marketing therefore aims at taking into account the needs (fundamental reasons for a purchase) and the motivations determining the buying decision. If needs imply a more concrete and objective notion (finding food, clothes, shelter, security) as they exist in human nature, motivations imply a more abstract and subjective notion (consideration, freedom). It is nevertheless difficult to dissociate needs from motivations as they intermingle in complex and changing human nature.
- 8 Marketing (consumer) research aims at collecting, analyzing and interpreting data used to make marketing decisions. Sources of data include:
- Primary: first-hand accounts of consumers: internet, observation schedules, and surveys.
  - Secondary: second-hand accounts and studies: periodicals, magazines, and official reports.
- 9 Activity: devise a questionnaire that seeks to establish a pattern of consumption for one of the following commodities: food, travel, and clothing. (class to be divided into three teams to set out one questionnaire per type of commodity, which is to be filled out by the rest of the class, and then analyzed)

Notes:

### Reference:

ARNOULD, ERIK & PRICE, LINDA & ZINKHAN, GEORGE (2003), *Consumers*, 2<sup>nd</sup> ed., McGraw-Hill.  
BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.  
COOPER, DOMINIC (1998), 'Work Motivation: Personal and Situational Influences on Behavior', in TIM HANNAGAN (1998), *Management: Concepts and Practices*, 2<sup>nd</sup> edition, London: FT-Pitman Publishing.

#### 44. Transnational marketing mix

The aim of this session is to

- Explore the 5 Ps of the marketing mix.
- Discuss issues with examples.

##### A Components

- 1 The marketing mix (Ball et al., 2004; Kotler & Armstrong, 2001) involves the developing and implementing of an appropriate mix of marketing activities directed toward market segments and market targets; they include:
  - The creation and presentation of products and services.
  - The methods used to get customer to these products and services (or vice versa) for an appropriate price.
  - The various techniques employed to communicate with customer.
- 2 The marketing mix is the stage of marketing management and strategy that directly affects the customer, but it is also a stage where the company has the most control to decide what kind of product and service to offer, or the kind of organization to put together, to select the magazine or radio station to carry our message, to determine the price, and select the distribution channels.
- 3 The most important decisions within the marketing program, which taken together form the 5 Ps of the marketing mix, are those made on:
  - Price: price levels; credit terms, price changes; discounts.
  - Product: features, packaging, quality, range.
  - Promotion: advertising; publicity; sales promotion, personal selling.
  - Place: inventory; channels of distribution; number of intermediaries.
  - People: marketing team, sales force.

##### B Product

- 4 Product decisions represent the most important ingredient of the marketing mix as they have the most direct and long lasting influence on the degree of success which a company enjoys.
- 5 This is not to say that decisions about products should be made in isolation: products which may have considerable market potential may fail because of poor promotional, pricing and

distribution decisions. Nevertheless, most salespersons know the difficulties of selling a poor or inappropriate product, even if that product is heavily advertised and competitively priced.

- 6 Product covers anything that a company offers to its customer for the purpose of satisfying their needs, in addition to the physical, tangible products offered for sale; there are also services and skills – this is referred to as a total product (Ball et al., 2004).
- 7 Purchasing package benefits are in fact what consumers purchase and not the product itself (i.e. the product is considered from the point of view of what the customer is actually purchasing, that is, needs and wants). Viewing the product in this way can provide useful insights which can be used in the marketing of a product. In the sales area it can be used to develop the sales presentation by stressing the ways in which the product or service provides a solution to the customer's problems.
- 8 Product life-cycle derives from the idea that most products tend to follow a particular pattern over time in terms of sales and profits a product has four distinct stages:
  - Introduction: sales growth is relatively slow; dealers must be persuaded to stock, and promote the product; consumers must be made aware of its existence, persuaded to become interested, and convinced that this is a worthwhile purchase; they may even have to be educated in how to use the product and their existing purchasing and life-style habits changed; there are no profits at this stage, and heavy launch costs can often mean a large financial deficit.
  - Growth: after the initial slow acceptance, sales begin to escalate at a relatively rapid pace; there is a snowball effect as work-of-mouth communication and advertising begin to take effect; dealers may request to stock the product; small profits are made.
  - Maturity: growth of sales begins to slow as the market begins to become saturated; few new buyers are attracted to the product and there is a high proportion of repeat sales; attracted by the high profit and sales figures, competitors have now entered the market; profits having peaked, begin to decline.
  - Decline: sales begin to fall; profit margins are depressed even further; customers have begun to become bored with the product and are attracted by newer, improved products; dealers begin to de-stock the product in anticipation of reduced sales.
- 9 Product life-cycle implications:
  - Even the most successful product has a finite life.
  - Intensifying competition and rapid technological change shorten product life-cycles.
  - Different marketing and sales strategies may be appropriate to each stage.

C Pricing

10 Pricing decisions encompass a whole variety of decision areas, namely, price level, credit and discount policies, and price changes. In the determination of price levels, a number of factors must be considered, the following (Ball et al., 2004):

- Company objectives: a company must first determine what objectives it wishes pricing to achieve within the context of overall company financial and marketing objectives.  
Example: company objectives may specify a target rate of return on capital employed; pricing levels for individual products should reflect this objective.
- Marketing objectives: these may shape the pricing decision.  
Example: a company may determine that the most appropriate marketing strategy for a new product which it has developed is to aim for a substantial market share as quickly as possible (market penetration).
- Demand consideration: the upper limit to the prices which a company is able to charge for its products and services is determined by demand; the demand curve contains much useful information for decision maker: it shows that at lower prices, higher quantities are normally demanded; it is also possible to read off the curve the quantities demanded at any given price; it is possible to assess how sensitive demand is to changes in price by calculating the percentage change in quantity demanded for any given percentage price increase or decrease.  
Example: one is able to charge only what the market will bear.
- Cost consideration: if demand determines the upper threshold for price, then costs determine the lower one: in the profit-making organization, in the long run, prices charged need to cover the total costs of production and marketing, with some satisfactory residue for profit; companies often begin making decisions on price by considering costs (fixed and variable).  
Example: calculating total costs per unit, a percentage added for profit.
- Break-even analysis: plotting on a chart fixed, variable and total costs together with a sales revenue curve, and where the revenue curve cuts the total cost curve is the break-even point where the company is making neither profit nor loss.  
Example: the break-even chart helps calculate the effect of charging different prices, and, when this is combined with information on demand.
- Competitor considerations: short-term tactical price changes are often made as a direct response to the actions of competitors.  
Example: duopolistic first mover pricing.
- Transfer pricing: the cost for transferring resources from one subsidiary to another as opposed to outsourcing.  
Example: automobile components.

D Place

- 11 Distribution within the marketing mix is concerned with all those activities required to move goods and materials into the factory, through the factory and to the final consumer as follows:
- The selection of distribution channels: determining in what manner, and through which distribution outlets, goods and services are to be made available to final consumer; the channel may be very short, where goods and services are sold direct to the customer such as via mail order; alternatively, it may include a whole set of intermediaries including brokers, wholesalers and retailers.
  - Determine the extent of distribution coverage: some companies have a policy of exclusive distribution where only a small number of selected intermediaries are used to distribute company products; in other cases, a company may decide that it requires as wide a distribution cover as possible (intensive distribution), and will seek a large number of distribution outlets.
  - Determine the level of customer service: decisions must also be made as to factors such as delivery periods and methods of transportation (reduce delivery time thereby increasing revenue vs. increase inventory levels, thereby increasing costs).
  - Set the terms and conditions of distribution: conditions of sale on the part of distributors, minimum order/stocking quantities and the determination of credit, payment and discount terms for distributors.
- 12 Distribution decisions have a significant impact on sales activities as it sets the framework within which sales are negotiated for this reason a number of distribution strategies are considered when the products are taken to foreign markets (Ball et al., 2004):
- The standardization of distribution patterns
  - The availability of channels and intermediaries
  - Foreign environmental forces

E People

- 13 The composition and competencies of the sales force and marketing team are a determinant factor for the success of a business organization; even if a firm has a product with market potential, if the sales force does not have knowledge of the market and has little experience in selling, success is jeopardized.
- 14 The sales force has an important role to play in establishing the state of the product life-cycle: because of their daily contact with customers, they are usually the first to detect signs that products are about to decline; their detailed knowledge of customers, competitors and market requirements makes them potentially a very valuable source of new product ideas.

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### F Promotion

- 15 This final element of the marketing mix has the most direct influence on sales because personal selling itself is considered as one element of the total promotional sub-mix of a company; other components of this sub-mix include advertising, sales promotion and publicity (*see session 45*).

#### Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.

KOTLER, PHILIP & ARMSTRONG, GARY (2001), *Principles of Marketing*, 9<sup>th</sup> edition, New Jersey: Prentice Hall.

## 45. Transnational promotion

The aim of this session is to

- Explore promotional aims and strategies.
- Determine criteria for effective promotional strategies.
- Discuss issues with examples.

*Class to carry out the relevant activity*

### A Promotion

- 1 Promotion and in particular advertising can be supported by many different media forms and is used to accomplish any of the following goals (Ball et al., 2004):
  - Attract potential consumers' attention.
  - Create product awareness.
  - Create interest in the product on offer<sup>2</sup>.
  - Turn potential consumer interest into a desire to experience the product.
  - Establish credible relation with the product<sup>3</sup>.

### B Types

- 2 Several types of advertising can be found and include (Paliwoda & Thomas, 1998; Kotler & Armstrong, 2001):
  - Outdoor advertising aims at displaying the firm's products on boards located along streets and highways to heighten awareness and recognition of the product; they have a great deal of flexibility and can attract impulse consumers; disadvantages include the limited message that can be conveyed, the cost of production and maintenance, and sometimes the difficulty of measuring its effectiveness.
  - Displays include advertising materials such as transit card, stand posters and leaflets; they are usually located in places such as buses and taxis, transportation terminals and trade shows; they are especially effective at airports and trade shows; drawbacks include the high cost for producing quality eye-catching displays when considering their limited audience.

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<sup>2</sup> This is not the same as creating product awareness: potential customers must become interested enough to want additional information.

<sup>3</sup> Consumers have the opportunity to inspect tangible products before they make a purchase; they can see for themselves whether the product will be suitable for their need; when buying an intangible service or product, they must base their decision on someone else's word: this is literally a buying promise that the experience with the product is worthwhile.

## Unit 9

- Collateral materials include brochures, posters, fliers and tent cards, designed to promote goods and services; they can be used as in-house or off-property promotional tools and can be designed for specific groups; gadgets and other specialty items are also considered as collateral materials; they are good reminders of a purchasing and shopping experience; disadvantages include the high cost of production and distribution and the difficulty in measuring their effectiveness.
- Print advertising media includes newspaper, magazine and directories: 1) newspapers are the most common advertising tools because they are widely read, and are an ideal medium to reach the local community and can be a good source of word-of-mouth advertising; can be used to target specific readers; they are flexible and inexpensive; drawbacks include finding the ideal position; they can be cluttered with ads reducing the sought-for impact; 2) magazines have the advantage of more readers per copy than newspapers; publishers can provide a information on circulation; provide a sophisticated, exciting format for promoting products as they cater for a specific audience, for a longer life, with credibility, quality and readability; disadvantages include high prices and geographical limitations; 3) yellow pages are referred to by people actively seeking information about a particular service; can be classified.
- Direct mail advertising is a print medium with a target audience, something that cannot be guaranteed by any other medium at a reasonable cost, even if the piece is a long illustrated message; direct mail pieces, especially letters, fliers and simple newsletters, can be relatively inexpensive to prepare even if color is used; they are traceable; drawbacks include high costs if it is used to blitz large target markets; recipients may also be annoyed by direct mail advertising and may have a negative impression of the firm that uses this medium.
- Broadcast media includes radio, television and video; the cost factor in terms of the cost of the production and the nature of the media itself are often a drawback.

### C Developing a promotional plan

3 Careful attention to both the purpose of advertising and the means is necessary; an advertising plan should be developed to enable the firm to reach its selected target markets within a predetermined cost. It may consider the following issues:

- Decide on advertising media.
- Consider advertising agencies, reciprocal advertising and co-operative advertising.
- Reach the largest number of potential customers at the lowest cost per customer.
- Deliver an adequate selling message.
- Make the customer identify with the firm.
- Repeat the message on a frequent basis.
- Be flexible enough for special promotions.
- Cover the targeted marketing areas or audiences.
- Offer the “least-waste” coverage.
- Find the best fit the property in terms of image and prestige.
- Respect the advertising budget.

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→ Is affordable without sacrificing other important media coverage.

4 The three advertising strategic options most commonly used are the following:

- Differentiation emphasizes how a product is different from its competitors; in order to be effective, there must be meaningful differences - differences that are readily identifiable to potential customers.
- Segmentation. The basic premise of this advertising approach is that a target market can be carved up into smaller segments; once a segment has been identified, advertising can be developed to appeal specifically to it.
- Combination. This strategy combines differentiation and segmentation; a specific market segment is selected to advertise to and an attempt is made to differentiate a product from other one by offering unique benefits that will be of interest to the selected segment.

### D Advertising characteristics

5 No matter what strategy is used, advertising must cut through the media clutter and promote the property in a memorable and cost-effective way. The following four characteristics play important roles in all successful advertising strategies:

- Reach: the number of different individuals or homes exposed to an advertising message at least once during a specified time period; advertising costs increase as the reach goals increase; added reach requires more advertisement or the use of additional media outlets.
- Frequency: how many times the average person in the target market is exposed to the advertising message over a specified time period; number of times a week or a day is the ad message sent or printed.
- Consistency: a property's advertising is far more effective if it has a consistent look and in the case of broadcast media a consistent sound; consistency produces a greater recognition of the property.
- Timing: advertising should be scheduled for those times when it will be most effective; timing advertising is to coincide with seasonal sales patterns.

6 The AIDA model (Kotler & Armstrong, 2001) places emphasis on the consumer: he or she will respond far more favorably when the advertising effort is directed to meeting personal wants and needs:

- Attention: to get the reader's attention, whether that attention is gained through an intriguing teaser or the envelope, a clever caption or drawing on the mailing piece or the copy itself.
- Interest: to give the consumer the answer to "What's in this for me?".

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- Desire: to create a desire to experience the product.
- Action: to ask the consumer to take action.

7 Activity 1: analyze an advertisement by means of the AIDA formula. (each individual student analyze 1 print and present findings)

Notes:

8 Activity 2: prepare the promotional campaign for a product of your choice (class to be divided in teams to prepare and present a promotional campaign with justifications)

Notes:

### Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.  
KOTLER, PHILIP & ARMSTRONG, GARY (2001), *Principles of Marketing*, 9<sup>th</sup> edition, New Jersey: Prentice Hall.  
PALIWODA, STANLEY & THOMAS, MICHAEL (1998), *International Marketing*, 3<sup>rd</sup> edition, Oxford: Butterworth-Heinemann.

## 48. Transnational marketing strategies

The aim of this session is to

- Explore marketing strategies.
- *Research issues.*
- *Present issues with examples.*

*Class to be divided in three teams to carry out the relevant activities*

- 1 Activity 1 (team 1): what are the features of a centralized/decentralized strategy (Schultz et al., 2003: 336-339)? What are their challenges? (consider reading 9 and research to summarize and present the strategy)

Centralized/decentralized:

- 2 Activity 2 (team 2): what are the features of a pull/push strategy (Schultz et al., 2003: 339-341)? What are their challenges? (consider reading 9 and research to summarize and present the strategy)

Pull/push:

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- 3 Activity 3 (team 3): what are the features of a branding strategy (Schultz et al., 2003: 341-342)? What are their challenges? (consider reading 9 and research to summarize and present the strategy)

Branding:

Reference:

SCHULTZ, MIKE et al. (2003), *International Business: Canada and Global Trade*, Toronto: Nelson.

**UNIT 10**  
**Transnational production**

## 47. Transnational organizational structure

The aim of this session is to

- Explore organizational structure.
- Explore job design.
- Explore departmentalization.
- Discuss methods of coordination.
- Discuss issues with examples.

### A The Nature of Organizational Structure

- 1 Organizational structure can be seen as the formal pattern of interactions and coordination designed by management to link the tasks of individuals and groups in achieving organizational goals.
- 2 Organizational structure consists mainly of four elements (Hannagan, 1998):
  - The assignment of tasks and responsibilities that define the jobs of individuals and units.
  - The clustering of individual positions into units, of units into departments and larger units to form an organization's hierarchy.
  - The various mechanisms required to facilitate vertical coordination, such as reporting lines and the degree of delegation of authority.
  - The various mechanisms needed to foster horizontal coordination such as task forces and inter departmental teams.
- 3 The process of developing an organization structure is referred to as organization design (Ball et al., 2004) whose usual representation tool is the organizational chart, a line diagram that depicts the broad outline of an organization's structure. Such charts are useful in providing a visual map of the chain of command i.e. the unbroken line of authority that ultimately links each individual with the top organizational position through a managerial position at each successive layer in between.
- 4 While there is an important connection between strategy and organization structure, the effectiveness of a particular type of structure is also influenced by certain contingency factors such as the dominant type of technology used or the organization's size. In addition, structural methods for promoting innovation can facilitate strategic implementation and the attainment of strategic organizational goals. Thus if the strategy is to be or become a global business organization, the structure must be adapted accordingly.

### B Job Design

- 5 Job design refers to the specification of task activities associated with a particular job (Baron & Kreps, 1999).

- 6 Different jobs involve different activities, which reflect work specialization i.e. the degree to which the work necessary to achieve organizational goals is broken down into various jobs, because it is impossible for each member to have the entire range of skills necessary to run an organization. Hence the importance of job designs to group activities so as to maximize work effectiveness, efficiency and economy.
- 7 Job design is approached in the following ways (Hannagan, 1998):
- Job simplification: the process of configuring jobs so that jobholders have only a small number of narrow activities to perform (scientific management: Taylor) (*see session 2*). The jobs involved are simple repetitive tasks where workers are mostly interchangeable, which makes training relatively easy but does not seem to be conducive to employee motivation.
  - Job rotation: the practice of periodically shifting workers through a set of jobs in a planned sequence. It is often aimed at reducing the boredom of repetitive tasks and to perform the cross training of workers. It is a successful development tool to increase employee capabilities, expand job assignment flexibility, and enhance understanding of the various aspects of the organization as it tends to lead to promotions, better pay and other career benefits.
  - Job enlargement: the allocation of a wider variety of similar tasks to a job in order to make it more challenging. It broadens job scope, the number of different tasks an employee performs in a particular job but has had limited success in motivating employees because it does not provide sufficient challenge and stimulation.
  - Job enrichment: the process of upgrading the job-task mix in order to increase significantly the potential for growth, achievement, responsibility and recognition. It increases job depth – the degree in which individuals can control the work involved in their jobs around considerations of the core job. The core job characteristics include:
    - Skill variety: the extent to which the job entails a number of activities that require different skills.
    - Task identity: the degree to which the job allows the completion of major identifiable piece of work, rather than just a fragment.
    - Task significance: the extent to which the worker sees the job output has having an important impact on the others.
    - Autonomy: the amount of discretion allowed in determining schedules and work methods for achieving the required output.
    - Feedback: the degree to which the job provides for clear, timely information about performance results.
- The motivational value of an enriched job stems from three critical psychological states:
- Feeling the work is meaningful.
  - Knowing that they are responsible for the outcomes.
  - Actually finding out about the results.

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These states have the following outcomes:

- Higher internal work motivation.
- Greater satisfaction of growth needs.
- Higher general job satisfaction.
- Increased work effectiveness.

Individuals are more likely to feel motivated by job changes if they have the knowledge and skills to perform well in the redesigned job, if they have growth-need strength – the degree to which an individual needs personal growth and development on the job – and if they are satisfied with other aspects of the job (pay, supervision, co-workers, job security).

### C Types of Departmentalization

8 Departmentalization refers to the clustering of individuals into units and of units into departments and larger units in order to facilitate achieving organizational goals.

9 The most commonly used departmentalization patterns are (Hannagan, 1998; Ball et al., 2004):

- Functional structure: groups positions into units on the basis of similar expertise, skills and work activities. Functions include several specialties are commonly associated with functional structures in business organizations (production or operations, marketing, human resources, finance, research and development, accounting, legal). An organization developing a functional structure must consider the specialized areas that are relevant to its own needs.

Uses: the functional form of departmentalization is most used in small and medium size organizations that are too large to coordinate their activities without some type of formal structure but are not so large as to make coordination across functions difficult. It may also be useful in large or more diverse organizations that normally operate in a relatively stable environment in which change occurs at a slow rate for the various functions to coordinate their efforts. It is also chosen by large organizations when considerable coordination is required among products.

- Divisional structure: groups positions into units according to the similarity of products or markets. Divisions include products divisions (created to concentrate on a single product or service or at least a relatively homogeneous set of products or services), geographic divisions (divisions created to serve different geographic areas) and customer divisions (created to service particular types of clients or customers).

Uses: divisional structures are likely to be used in fairly large organizations in which there is substantial difference among the product or service, the geographical area or the customers served. It is sometimes not feasible to organize into self contained units if the nature of the organization makes it necessary to share common resources, such as expensive manufacturing equipment.

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- Hybrid structure: combines aspects of both of the above.  
Uses: hybrid structures tend to be used in organizations that face considerable environment uncertainty that can best be met through divisional structure, but also require functional expertise and/or efficiency. They are reserved to medium size to large organizations that have sufficient resources to justify divisions as well as some functional departmentalization.
  - Matrix structure: superimposes a horizontal set of divisional reporting relationships onto a hierarchical functional structure.  
Uses: matrix structures tend to be used in organizations where there are numerous areas of responsibility.
- 10 Multinational corporations typically use a hybrid structure with the exception of high tech firms that use the matrix structure.

### D Methods of Vertical Coordination

- 11 Vertical coordination refers to the linking of activities at the top of the organization with those at the middle and lower levels in order to achieve organizational goals.
- 12 Six particularly important means of achieving effective vertical coordination are (Hannagan, 1998):
- Formalization: the degree to which written policies, rules, procedures, job descriptions, and other documents specify what actions are (or are not) to be taken under a certain set of circumstances. It helps vertical coordination by specifying expected behaviors in advance; most organizations rely on at least some means of formalization; a disadvantage is that extensive rules and procedures can discourage change and innovation.
  - Span of management or span of control: the number of subordinates who report directly to a specific Manager. It is very important to vertical coordination because it has a direct bearing on the degree to which managers can interact with and supervise subordinates; factors influencing the widening of the span of control include:
    - Low interaction requirements: when employees are able to operate without frequent interaction with each other or with their superiors, managers can supervise more individuals.
    - High competence levels: high job related skills and abilities make it possible to handle more employees.
    - Work similarity: when employees do similar work, it is easier for managers to maintain adequate supervision than when tasks vary widely.
    - Low problem frequency and seriousness: when problems, and particularly serious ones, are less frequent there is less need for managerial attention.
    - Physical proximity: when the employees are located within close proximity from one another the managers can coordinate activities more easily.
    - Few non supervisory duties of manager: when managers have few non supervisory duties to perform, such as doing part of the subordinate's work.

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- Considerable available assistance: when they have assistant or secretarial support, managers can supervise more employees.
- High motivational possibilities of work: when the work itself offers a high challenge, employees are more likely to increase their performance levels, because of opportunities to exercise discretion, making it less necessary for continual managerial involvement.
  
- Levels in the hierarchy: span of management for various managerial positions directly influence the number of hierarchical levels in the organization. A tall structure has many hierarchical levels and narrow span of control; a flat structure has few hierarchical levels and wide span of control. Very tall organizations raise administrative overheads, slow communication and decision making, make it more difficult to pinpoint responsibility, and encourage routine jobs. All structures can change by downsizing and restructuring.
  
- Centralization: the extent to which power and authority are retained at the top organizational levels. The extent of decentralization affects vertical coordination by influencing the amount of decision making at the upper and lower levels; centralization promotes strong leadership.
  
- Decentralization: the extent to which power and authority are delegated to lower levels; among the advantages of decentralization includes encouraging decision making at lower levels, thus freeing executives to focus on major issues, enriching jobs of lower level employees, and faster decision making at lower levels. It very often leads to the establishment of relatively independent units.
  
- Delegation: the assignment of part of a manager's work to others, along with both the authority and responsibility necessary to achieve expected results; delegation is important to vertical coordination because it allows the hierarchy to be more efficient and more effective by enabling work to be done at the lowest possible level. It facilitates subordinates' development.

### Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.  
BARON, JAMES & KREPS, DAVID (1999), *Strategic Human Resources: Frameworks for General Managers*, New York: John Wiley & Sons.  
HANNAGAN, TIM (1998), 'Management Control', in TIM HANNAGAN (1998), *Management: Concepts and Practices*, 2<sup>nd</sup> edition, London: FT-Pitman Publishing.

## 48. Production

The aim of this session is to

- Explore operations management.
- Explore production management
- Highlight design and facilities considerations.
- Discuss issues with examples.

- 1 Operations management, or production, is the management of the productive processes that convert inputs into outputs (i.e. goods or services). The operations management function is carried out by the part of the organization directly involved in producing the primary goods or services.
  
- 2 Typically outputs can be
  - In terms of their nature
    - Tangible: goods
    - Intangible: services
  
  - In terms of their shelf life
    - Perishable: with a short shelf life
    - Perpetual: with a long shelf life
  
  - In terms of state policy
    - Unrestricted: legal and free to move across border with no tariffs or quotas attached to them
    - Partly restricted: legal but with quotas attached to them
    - Restricted: illegal

### A The Productivity-Operations Management Linkage

- 2 Productivity as an efficiency concept that gauges the ratio of outputs relative to inputs in a productive process is aimed at assessing the efficiency aspect of an organizational performance – the ratio of outputs relative to inputs. It is an indicator of efficiency but not of effectiveness (i.e. achieving the production output, outcomes and other business objectives) nor of economy (i.e. maximizing output with the same or less inputs). It can be a useful tool for managers because it helps them track progress towards the more efficient use of resources in producing good or services.

- 3 Organizational productivity is often measured using the ratio (Boaden, 1998):

$$\text{Productivity} = \frac{\text{Goods and services produced (outputs)}}{\text{Labor + Capital + Energy + Technology + materials (inputs)}}$$

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- 4 An approach that considers all the inputs involved in producing outputs is sometimes referred to as total factor productivity. Managers also use partial-factor productivity, an approach that considers the total output relative to a specific input, such as labor (i.e. labor productivity is the ratio between the commodities produced relative to number of hours used for producing these commodities).

### B Production in Manufacturing and Service Organizations

- 5 Manufacturing organizations transform inputs into identifiable, tangible goods, which can be stored and the customer does not need to be present while the transformation process is taking place: manufacturing can be done at decentralized locations and the products can be shipped to the customers. In addition, manufacturing can use slack time to build up inventories in preparation for peak periods. Managers have considerable control on when and how their operation will run, and they can attempt to organize their activities to maximize productivity.
- 6 Service organizations transform inputs into intangible outcomes which are produced and consumed more or less simultaneously: they cannot be stored and they involve the customer. Idle capacity cannot be used to produce stored inventory and they must operate in dispersed locations to be close to their customers. Managers have less control over when and exactly how their operation takes place, as their activities may depend on customer's needs which are difficult to determine fully in advance.
- 7 Some organizations produce both goods and services. One way to classify them according to the degree of service they provide is to measure the percentage of production process time that is spent in direct contact with the customer: pure producer of goods would have zero contact with the ultimate customer, while a pure producer of service would have 100 % contacts. High customer contact reduces organizational efficiency and productivity, since customers' arrival patterns may vary and they may make particular demands that require customized service.

### C The Operation Management Process

- 8 The operations management process involves several major elements:
- Operations strategies: the role played by operations management in both formulating and implementing strategies to achieve organizational goals.
  - Operating systems: the major methods used to achieve efficiency and effectiveness in manufacturing and service operations.
  - Facilities: the land, building, equipment and other major physical assets that directly affect an organization's capacity to deliver goods or services.
  - Process technology: the technology used in transforming inputs into outputs (goods and services).

9 Operations management plays different roles in determining strategy depending on an organization's strategic role stage:

- Stage 1: Minimize negative potential: during this stage top managers attempt to neutralize any negative impact that internal operations may have on the organization. They do so because they regard operations management as essentially neutral, i.e. being unable to positively affect the organization's competitive success; they use detailed measures and controls to ensure that the operations function does not veer too far off tracks before corrective action is taken. They generally minimize their involvement with operations management but concern themselves with major investment decisions through the capital budget process. This stage is characteristic of many consumer products and service companies.
- Stage 2: Achieve parity with competition: top managers seek to have operations management maintain parity with the competition. Organizations attempt to maintain such equality by adopting industry practices related to workforce matters (such as labor negotiations), equipment purchases, and upgrades of capacity. They view capital investments in new equipment and facilities as the best means of gaining a temporary jump on the competition, and they consider economies of scale as the best source of efficiency. Traditional manufacturing intensive industries are organizations often found at this stage.
- Stage 3: Support overall organizational strategy: top managers expect the operations management function to actively support and strengthen the organization's overall strategy; the role of operations manager is then is to gain a thorough understanding of the organizational strategy formulated by top management and to consider innovations that will help implement that strategy effectively. In contrast to those in Stage 2, they see technological progress as a viable option that can enhance the organization's competitive position; at this point operations managers are involved in implementing and supporting strategy but not in formulating it.
- Stage 4: Pursue operations management-based strategy: top managers view operations management as a strong strategic resource that can be used as a basis for strategy development. They include operations managers in the strategy development process and formulate strategies that depend to a significant degree on operations capabilities.

#### D Developing and Implementing Operating Systems

10 Successfully carrying out an operations strategy requires the design and implementation of well conceived operating systems, the major methods used to achieve efficiency and effectiveness in manufacturing and service operations include (Stevenson, 1999; Ball et al., 2004):

- Forecasting: the process of making predictions about changing conditions and future events that may significantly affect the business of an organization. Forecasting efforts are aimed mainly at predicting goods and services demand. They can range from short to long term and depend on quantitative and judgmental forecasting methods.

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- Capacity planning: the process of determining the people, machines and major physical resources, such as buildings, that will be necessary to meet the production objectives of the organization. Capacity is the maximum output capability of a productive unit within a given period of time; capacity planning involves three different time horizons: long-, medium- and short range. Short range capacity planning makes use of capacity requirements planning, a technique for determining what personnel and equipment are needed to meet short term production objectives.
- Aggregate production planning: the process of planning how to match supply with product or service demand over a time horizon of about one year. It relies on the assumption that the maximum capacity of major facilities cannot be altered during the time frame and that short and intermediate term demands are subject to fluctuations because of uncertainties. As a result operations managers need to plan how to meet the fluctuating demand given the fixed capacities of their facilities.
- Scheduling: the master production schedule translates the aggregate plan into a formalized production plan encompassing specific products to be produced or services to be offered and specific capacity requirements over a designated time period.
- Materials requirements planning: a computer based inventory system that develops materials requirements for the goods and services specified in the master schedule and initiates the actions necessary to acquire the materials when needed.
- Purchasing: the process of acquiring necessary goods or services in exchange for funds or other remuneration; purchasing needs are identified through materials requirement planning, then the purchasing process takes place: it involves such actions as investigating vendors to determine whether they are qualified to provide supplies, seek alternate source of supplies, and negotiating low, favorable purchasing prices.

11 In the transnational context, an operations strategy aims at the standardization of production for the following reasons (Ball et al., 2004):

- Simplify the production organization.
- Enhance the interchangeability of production components,
- Rationalize production.
- Replicate quality.
- Reduce production control.
- Simplify production planning and design.

### E Designing and Utilizing Facilities

12 Facilities are the land, buildings, equipment and other major physical inputs that substantially determine productivity capacity, require time to alter, and involve significant capital investments.

- 13 Expansion and contraction: decisions directly related to long range capacity planning; facilities decision process involves four steps:
- Managers use forecasts to determine future demand. Since it takes often 2 years or more to build facilities and put them into operation, forecasts must extend over several years.
  - Managers compare current capacity with projected future demand. Current capacity is the maximum output rate possible from current operations. By comparing with future demand managers can determine whether current capacity is insufficient, about right or excessive.
  - When there is excessive or insufficient capacity, managers need to generate and then evaluate alternatives. In many cases there will be a wide choice of alternatives, and in others it will be difficult to develop even one feasible alternative.
  - Managers carefully consider risks and decide on a plan that includes the timing of capacity expansion or contraction. Facilities decisions usually involve considerable risk because additional facilities raise fixed costs and must be paid even when the expected demand does not materialize. On the other hand insufficient capacity provides competitors with an opportunity to attract customers.
- 14 Facilities location: the location of plants, warehouses, and service facilities is an important aspect of facilities decisions. Most facilities location problems fall into four categories:
- Single facility: involves a facility that does not interact with any other facility the organization may have; location decisions in this case will revolve around labor cost, labor supply, raw material, transportation availability, community services, and taxes.
  - Multiple factories and warehouses: involve considerations of the costs associated with distributing the products to customers; different methods may be used that will help determine locations that will minimize distribution costs. Efforts to adapt just in time inventory methods are causing manufacturing firms to locate closer to their customers and suppliers.
  - Competitive retail outlets: must be oriented towards considerations of the revenue that can be obtained from various locations.
- 15 Facilities lay out: There are three main types of lay outs (Stevenson, 1999):
- Process lay out: a production configuration in which the processing components are grouped according to the type of function that they perform
  - Product lay out: a production configuration in which the processing components are arranged in a specialized line along which the product or client passes during the production process.

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- Fixed-position lay out: a production configuration in which the product or client remains in one location and the tools, equipment and expertise are brought to it as necessary to complete the productive process.

16 Computer integrated manufacturing (CIM) is the computerized integration of all major functions associated with the production of a product. Such functions include designing and engineering products, instructing machines, handling materials, controlling inventories, and directing the production process. CIM systems make extensive use of sophisticated materials requirement planning systems (MRP) (Stevenson, 1999).

### F Planned Productivity Improvements

17 Within organizations, attempts to improve productivity – that is to generate more output from the same or fewer inputs – depends on a five step process:

- Establish a base point against which to assess future improvements: the important thing is to choose measures that focus on important aspects of productivity for the particular organization or work unit. The continuous improvement principle associated with total quality management can also be a helpful tool for encouraging productivity enhancement.
- Set goals to establish the desired productivity level: a number of studies in a wide variety of jobs and industries support the usefulness of goal setting as a means of raising productivity levels.
- Review methods for increasing productivity: a number of options exist to increase productivity, such as employee selection techniques, placing people in jobs that are well matched to their qualifications, training workers in job related skills, redesigning jobs to give workers more control over their own productivity, providing financial incentives that are carefully tied to productivity issues, and using feedback and performance appraisals to let workers know how they are doing.
- Select a method and implement: managers should choose the method that appears to have the best chance of success in the particular situation; implementation is likely to involve some considerations about the best way to bring about change.
- Measure results and modify as necessary: further modifications are necessary only if productivity is not improving as planned; met goals lead to new goals, since increasing productivity is a continual challenge for successful organizations.

18 Key ways to improve productivity (Schultz et al., 2003):

- Knowledge: use and production of knowledge to improve machines and systems; use of intellectual capital as a factor of production (skilled labor); competitive and comparative advantage: use of knowledge to improve productivity and therefore have the necessary resources for competitive and comparative advantage.

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- Innovation: quality and innovation for improved productivity to lower price and offer unique products; lower taxes to stimulate the economy especially the research and development of new products and methods of commercialization.
- Rationalization: changes in organizational structure, production, product line for greater efficiency (i.e. make economies of scale: falling unit costs) – downsizing or privatizing; rationalization is often interlocked with other factors (i.e. consumer demand, trade balance, organizational change, and business activities).

### Reference:

- BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.
- BOADEN, RUTH (1998), 'Operations Management', in TIM HANNAGAN (1998), *Management: Concepts and Practices*, 2<sup>nd</sup> edition, London: FT-Pitman Publishing.
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## 49. Quality

The aim of this session is to

- Explore quality control and assurance.
- Explore TQM.
- Establish policies under TQM.
- Explore appraisal.
- Discuss issues with examples.

- 1 The development of quality is associated with the product the customer receives. This however does not guarantee success in the market place: quality must be understood in the context of the business environment.
- 2 thus quality in the business environment refers to the maintenance, replication and diffusion of widely accepted standards.
- 3 Quality standards can be set by:
  - State bodies  
Example: Management Charter Initiative by the Department for Employment and Education in the UK.
  - Non government bodies  
Example: International Standardization Organization (ISO).
  - Business Organizations  
Example: hazard prevention standards in the hospitality industry (HACCIP).

### A Types

- 2 To achieve the desired level of quality, one can apply the following:
  - Quality control (QC): concerns techniques and activities that support quality to specified requirements; it is the traditional understanding of quality; the basis of quality control is inspection (Hannagan, 1998). The outcome is that it measures a product which has not been produced to customer satisfaction i.e. defects are recorded, not prevented. Typical activities in a QC environment include (Stevenson, 1999):
    - Determination of inspection points.
    - Inspection methods development.
    - Data collection and analysis<sup>1</sup>.
    - Prevention of chronic problems.

It is a widely spread view that quality is a major factor affecting customer's choice. It is widely believed that QC techniques – measuring, examining, testing, and comparing

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<sup>1</sup> This is achieved by means of control charts, run tests and acceptance sampling.

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with relevant standards - can improve quality standards. However, the inspection process is costly and adds no value to the product. Removing defective parts does not add value, on the contrary, and does not solve production problems.

- Quality assurance (QA): recognition that QC is not enough in itself; focuses on product conformity to specifications through product and operations specifications (Hannagan, 1998). QA is based on prevention of quality problems. QA activities include:
  - How policies are developed in respect to quality.
  - Allocation of responsibilities.
  - Procedures to carry out the needs of the business.
  - Standards to be attained in the work place.
  - Documentation to demonstrate operation and maintenance of the system and attainment of quality.

### C The Barriers to Quality

3 Typically, the barriers to quality include:

- Systems and procedures: particular to hierarchical organizations where systems have become 'frozen'. Pressure for change and adaptation is resisted; staff in an organization will seek to achieve the targets which are established through reported measurements: it is necessary to look at the ways in which performance is measured; systems and procedures must be (re)designed to support the achievement of quality with particular attention to the selection of performance criteria.
- Culture: a set of behavioral and attitudinal norms to which most or all members of an organization subscribe, either consciously or unconsciously, and which exert a strong influence on the way people resolve problems, make decisions and carry out every day tasks; culture is often a very strong determinant of behavior.
- Innovation: achievement of quality depends on an adequate level of innovation and creativity which is suppressed in organizations that pursue the status quo. Some organizations take the view that if everything is alright now it will surely be alright tomorrow; in the contemporary environment the assumption of continuity is highly dangerous.
- Accountability: achievement of quality requires that errors be acknowledged, that sources of errors be tracked down, and rectified, and that both curative and preventative action be taken by those involved; in many organizations that process is inhibited when the culture adopts a penal attitude. This barrier can be overcome by recognizing that errors are often opportunities for learning and the basis for modifying a process or system.
- Organization design: the organizational structure can conflict with the search for quality by privileging other activities; a structure must be created that is independent of the

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production function. Information systems play an important part as they may be used to explain mistakes and failures or it can be used to draw lessons and undertake changes.

- Management perspective: does not simply refer to the attitude to quality but to the whole management ethos of the organization as it impacts on quality; issues such as pricing and margins are often raised, leading to focus on manufacturing performance; more rarely is quality considered a primary issue. The change required in management attitudes is fundamental, away from productivity to productivity with quality. Barriers to quality may be built in the reward system, which can only be overcome by changing the system: effective change may mean opening negotiations with all stakeholders in the business: workforce, shareholders or equity providers.
- Costs of quality: the direct and invisible costs of quality, unnecessarily incurred by any organization that does not have an effective quality system in place. Direct costs are a result of non achievement of quality and visibly attributable to that fact. It is the cost of putting right errors. Invisible costs are harder to identify but are nonetheless incurred when quality standards are not met. They could be :
  - Dissatisfied customer.
  - In-process rework cost.
  - High staff turnover.
  - Capital costs for equipment, buildings, and stocks.
  - Reduced availability of working capital.

### D Total Quality Management

- 4 Under total quality management (TQM) quality is about fitness to use and conformance to specifications for the purpose of continuous improvement (Stevenson, 1999).
- 5 Under TQM there are series of customer-supplier interfaces that are managed. Thus, while traditional understanding of quality focuses directly on the product or service provided, TQM focuses on the interaction of the external customer, external supplier, stockholders, society at large and the organization itself, and specifically on the effective and efficient management of the processes which satisfies the needs of this extended enterprise.
- 6 The European Framework for Total Quality Management (EFQM) provides a meaningful mechanism for self appraisal which involves the regular and systematic review of the organization's activities and results in nine key areas or criteria:
  - Enablers (a focus on how to enable quality): Leadership; People management; Policy & Strategy; Resources; Processes.
  - Results (a focus on what has been achieved): People satisfaction; Customer satisfaction; Impact on society; Business results.

- 7 Total quality is an all-embracing management philosophy and should not be viewed as an add-on activity. It cannot be seen as an additional task for the manager; rather it must form an integral part of all others in the organization: total quality must form part of the fabric of the organization (i.e. total quality is not what we do; it is what we are).

E Total Quality Program

- 8 A TOM program takes a problem-solving approach (Stevenson, 1999) and typically includes the following steps:
- Step 1: establish management commitment.
  - Step 2: form quality improvement teams: place emphasis on multi disciplinary effort; a quality department alone will not be successful; it is essential to build teams.
  - Step 3: establish quality measurements: apply quality measurements to every activity throughout the company to provide a platform for the next step.
  - Step 4: evaluate the cost of quality: highlight where quality improvements will be profitable.
  - Step 5: raise quality awareness: enhance awareness through the training of managers and supervisors, and by improving communication.
  - Step 6: take action to correct problems: encourage staff to identify and rectify problems, or to pass them on to the next level where they can be addressed.
  - Step 7: zero defects planning: establish a committee, or working team to develop ways to initiate and implement a zero defects program.
  - Step 8: train supervisors and managers: focus on achieving understanding by all managers and supervisors of the steps in the quality improvement program in order that they can explain it in turn.
  - Step 9: hold a zero defects day: establish the attitude and expectations within the company.
  - Step 10: encourage the setting of goals for improvement: aims and objectives are of no value unless they are related to appropriate time scales for their achievement.
  - Step 11: obstacle reporting: encourage employees to advise management of the factors which prevent them achieving error free work; this may include defective or inadequate equipment, or poor quality components.
  - Step 12: recognition for contributors: reward all those who contribute to the program through a formal, although non-monetary, reward scheme.
  - Step 13: establish quality councils: set out forums composed of quality professionals and team leaders allowing them to communicate and determine action plans for further quality improvements.
  - Step 14: do it all over again: achievement of quality is an ongoing process: however far one has gone, there is always further to go.

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### F Quality assessment and quality audit

- 9 Quality assessment: an assessment of an organization's quality system is a formal appraisal of that system and is carried out to establish to what extent the system meets the criteria specified in a quality standards or quality assurance scheme.
- 10 The assessment is conducted by an accredited body; it involves documentation review, company visit to determine if the quality management system:
- Exists in a documented form (quality manual, operating procedures).
  - Is correctly operated and maintained (records of implementation and operation according to procedures).
  - Is effective in terms of:
    - Early detection of defective material.
    - Analysis of quality problems.
    - Improvements made in processes and products.
    - Benefits identified.
- 11 Quality auditing: an accredited organization, or wishing to become accredited, must undertake to carry out an audit; the quality assurance audit is an objective evaluation of the quality program and its component parts.
- 12 There are three basic reasons why companies may choose to go through a quality system registration process:
- For the intrinsic value gained from meeting the challenge.
  - To meet the requirements of a single large customer, such as a government agency, requiring accreditation for awarding large contracts.
  - To maintain or gain access to markets where quality play a special role.

#### Reference:

HANNAGAN, TIM (1998), 'Total Quality Management', in TIM HANNAGAN (1998), *Management: Concepts and Practices*, 2<sup>nd</sup> edition, London: FT-Pitman Publishing.

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## 50. Transnational chain management

The aim of this session is to

- Explore logistics.
- Discuss the components of logistics.
- Explore distribution channels.
- Explore distribution means and challenges.
- Present issues with examples.

*Class to be divided in three teams to carry out the relevant activity*

- 1 Any business organization as a consumer and provider of resources is concerned with the management of:
  - The supplies *to* the organization, its supply chain.
  - The supplies *from* the organization, its distribution chain.

### A Supply Chain Management

- 2 The main aspect of supply chain management is logistics (Stevenson, 1999), that concerns the planning, implementing and controlling of the flow and storage of resources (i.e. raw materials, inventory, finished products, information and knowledge) within and without the facility.
- 3 Logistics comprises the management of the following aspects (Ball et al., 2004; Schultz et al., 2003; Stevenson, 1999):
  - Sourcing: determining the necessary resources in the trans-national context in terms of their location, quality, quantity and price.
  - Purchasing: obtaining the necessary resources at a specified time.
  - Warehousing: the (temporary) stockpiling of purchased resources ready to be used in the production system.
  - Distributing: the distribution of resources to the different outlets or divisions of the production system within the business organization.
  - Info-managing: the management of information pertaining to the use and need of resources.

### B Distribution Chain Management

- 4 Distribution of commodities from the business organization to the point of sale is characterized by (Cateora & Graham, 2002; Ball et al., 2004):

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- Intermediate services: the role of channel intermediaries (middlepersons) exist or not.
  - Line breath: the type of intermediate service provided.
  - Costs and margins: the effect of intermediate prices.
  - Channel length: the number of intermediate services.
  - Channel existence: adequate market coverage.
- 5 Three approaches are used in the management of the couple distribution-production which is dependent on production methods (Ball et al., 2004):
- Just-in-time (JIT): the purpose is to respond to customer changes in wants by reducing production time, inventories and intermediate services.
  - Synchronous manufacturing TOC (theory of constraints): the purpose is to eliminate constraints (i.e. bottlenecks and slow speed) to greater production output.
  - Soft manufacturing: the purpose is to customize products to meet changing tastes and preferences.
- 6 Domestic intermediate services (i.e. domestic middlepersons) typically include (Cateora & Graham, 2002):
- Global retailers and hyper-marts.
  - Export management companies – EMC for small volumes.
  - Trading companies with a complete logistics management.
  - Export trading companies – ETC set up by producers of similar products.
  - Complementary marketers (piggybacking) – companies with excess marketing capacity.
  - Manufacturing export agent – MEA with intermediary services.
  - Export jobbers dealing mainly in commodities.
- 7 Foreign intermediate services (i.e. foreign middlepersons) typically include (Cateora & Graham, 2002):
- Manufacturer representatives
  - Distributors
  - Dealers
  - Import jobbers
  - Retailers
  - Wholesalers
- 8 Factors affecting distribution channel choice decisions include (Cateora & Graham, 2002):
- Organization and marketing objectives: strategic objectives affect channel breath, length and intermediate services needed.

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- Target market and customers: the definition of market and customer profile influence distribution timing and quantity.
  - Product and production specifics: the type of product and its degree of transportability.
  - Competition: the position and importance of competitors in existing channels of distribution and their ability to influence and control channels in terms of the cost of intermediate services.
- 9 Commodity delivery is affected by (Schultz et al., 2003):
- Topography  
Example: whether the region is mountainous or not
  - Climate:  
Example: whether the region is prone to snow storm
  - Cost  
Example: the cost of oil
- 10 As a component of distribution, export logistics (as the obverse of import of logistics) comprises (Cateora & Graham, 2002; Ball et al., 2004):
- Physical distribution system: involves not only the physical movement of traded goods but also the location of plants, warehouses, modes of transportation, inventory quantities and packing in terms of the interdependence of intervening costs; the purpose is the achievement of the lowest system cost consistent with the customer service objectives of the business organization.
  - Export shipping and warehousing: involves matching order of goods to the shipping modes best suited for swift safe and economical delivery that include containers, lighter aboard ship (LASH), roll on-roll off cargo (RO-RO) or airfreight..
  - Foreign freight forwarder (or equivalent): involves arranging for the shipment of goods as the agent for an exporter.
  - Export procedures: involves the preparation and submission of export documents that comprise the shipping documents (i.e. declaration, license, bill of lading, insurance certificate) and the collection documents (i.e. invoice, certificates of origin)
- 11 Activity 1: discover the JIT methods for fashion manufacturers (Benetton, Zara, H&M etc.) by visiting their web site (class to be divided into teams to research and present findings)

JIT:

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- 12 Activity 2: describe the firm-consumer chain for a product of your choice (class to be divided into teams to research and present findings)

Notes:

Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.

CATEORA, PHILIP & GRAHAM, JOHN (2002), *International Marketing*, 11<sup>th</sup> edition, New York: McGraw-Hill.

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## **UNIT 11**

### **Transnational workforce**

## 51. Managing people

The aim of this session is to

- Explore people management.
- Discuss staffing and selection.
- Explore performance appraisal.
- Discuss issues with examples.

*Class to carry out the relevant activities*

### A Managing People

- 1 People management, also known as human resource management (HRM) is about the management of various activities designed to enhance the effectiveness of an organization's workforce in achieving organizational goals. Typically it involves (Bennett, 1998):
  - Human resources planning: the process of determining future human resource needs relative to an organization's strategic plan and devising the steps necessary to meet those needs.
  - Job analysis: the systematic collection and recording of information concerning the purpose of the job, its major duties, and the conditions under which it is performed, the contacts with others that job performance requires, and the knowledge, skills and abilities needed to perform the job effectively.
- 2 The results of job analysis are often developed into a job description which is a statement of duties, working conditions and other significant requirements associated with a particular job; it is frequently combined with a job specification which is a statement of skills, abilities, education, and previous work experience that are required to perform a particular job.

### B Demand and Supply for Human Resources

- 3 Demand for human resources: a significant aspect of HRM is devoted to assessing the demand for human resources as affected by the organization's environment. The demand is influenced by changing organizational requirements, alterations to the strategic plan, internal work-force changes (retirement, resignations, and terminations). To retain flexibility, many employers are increasingly using contingent workers, hired on a temporary basis, to handle areas of fluctuating demand or changing needs that cannot be met by the organization's traditional, full time workers.
- 4 Supply of human resources: one can distinguish between<sup>1</sup>:
  - Internal labor supply concerns the pool of current employees who can be transferred or promoted to help meet demand. This can occur nationally or transnationally – provided

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<sup>1</sup> The notions of demand and supply here follow the conventions used in HRM departments; in economics it is the opposite: it is the firm that demands labor and the worker that supplies it.

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the immigration requirements are met. The main means of assessing the internal labor supply include:

- Skills inventory data bank containing basic information about each employee and which can be used to assess the likely availability of individuals for meeting current and future demand.
  - Replacement planning: is a means of identifying potential candidates to fill specific managerial positions; it is materialized by a partial organization chart showing major managerial positions in an organization, current incumbent, potential replacements for each position and the age of each person on the chart.
  - Succession planning is a means of identifying individuals with high potential and ensuring that they receive appropriate training and job assignments aimed at their long-run growth and development; it provides a well qualified pool of individuals from which middle and top managers can be drawn in the future.
- External labor supply: some reliance on the external labor supply is usually necessary because of organizational expansion and/or employee attrition.
- 5 Reconciling demand and supply: managers must take steps to balance the two: if internal supply of labor is too large, plans must be made to reduce the number of employees through resignations and retirements and possibly lay offs; on the other hand if additional employees are necessary, plans must be also made to promote or transfer current organization's members if desirable, as well as for hiring new workers.

### C Staffing

- 6 Staffing refers to the set of activities aimed at attracting and selecting individuals for positions in a way that it facilitates the achievement of organizational goals (Baron & Kreps, 1999).
- 7 Recruitment is the process of finding and attempting to attract job candidates who are capable of effectively filling job vacancies. One should consider:
- Internal recruitment: most vacant positions in organizations are filled through internal recruitment, a process of finding potential internal candidates and encouraging them to apply for and/or be willing to accept organizational jobs that are open. One method of recruiting internally is through job posting, a practice whereby information about job vacancies is placed in conspicuous places in an organization such as bulletin boards or newsletters.
  - External recruitment: a process of finding potential external candidates and encouraging them to apply for and/or be willing to accept organizational jobs that are open; a major issue is to provide candidates with an overly positive view of the organization in order to attract new employees. An alternative approach is the realistic job preview, which is a technique in which job candidates are presented with a balanced view of both the positive and the negatives of the job and the organization.

- 8 External recruitment is affected by transnational labor mobility (Ball et al., 2004) in terms of
- Immigration laws and policies.
  - Composition of labor force productivity of the domestic economy.
  - Socio-cultural considerations on employment over status, gender, and ethnicity.
  - Worker participation in management.

D Selection

- 9 Selection refers to the process of determining the candidate best suits organizational needs (Bennett, 1998). In order to make adequate assessments of candidates, selection methods must be valid (i.e. measure what it is designed to measure).
- 10 Typical selection methods include:
- Application blank: a form containing a series of enquiries about such issues as an applicant educational background, previous job experience, physical health, and other information that may be useful in assessing an individual's ability to perform a job.
  - Selection interviews: a relatively in-depth conversation conducted for the purpose of assessing a candidate's knowledge, skills and abilities, as well as providing information to the candidate about the organization and the potential jobs. In most cases interviews conducted are unstructured interviews and as such have low validity as a selection device. A potential remedy is to conduct structured interviews or semi structured interviews.
  - Employment tests: a means of assessing a job applicant's characteristics through paper and pencil responses or simulated exercises. Three major types of tests are used in the selection process :
    - Ability tests for mental, mechanical and sensory capacities.
    - Personality tests for measuring patterns of thoughts, feelings, and behaviors.
    - Performance tests to measure practical ability on a specific job.
  - Assessment centers: is a controlled environment used to predict the probable managerial success of individuals mainly on the basis of evaluation of their behaviors in a variety of simulated situations.
  - Reference checks: attempts to obtain job related information about a job applicant from individuals who are knowledgeable about the applicant's qualifications.

E Performance Appraisal

- 11 Performance appraisal refers to the process of defining expectations for employee performance, measuring, evaluating and recording employee performance relative to those expectations and providing feedback to the employee (Baron & Kreps, 1999).
- 12 Typical methods for rating performance include:
- Graphic rating scales: scales that list a number of factors including general behaviors and characteristics, on which an employee is rated by a supervisor (attendance, appearance, dependability, quality of work, relationship with people, etc...).
  - Behavioral rating scales: scales that contain sets of specific behaviors that represent gradations of performance used as common reference points (or anchors) for rating employees on various job dimensions.
- 13 The performance appraisal interview is a challenging situation to handle. To perform effectively as a rater, supervisors must play three different roles, namely:
- As leader, the rater assigns work, works with the employee to establish standards, supply resources.
  - As a coach, is responsible for ensuring the employee is trained and supplies encouragement and support.
  - As a judge, evaluates the employee's performance as objectively as possible.
- 14 To solve these dilemmas companies are increasingly using the 360 degree feedback which is an approach that provides an individual with ratings of performance from a variety of relevant sources such as peers, subordinates, superiors, and often external customers or clients, which can then be compared with the individual's own self assessment.
- 15 Application: Now complete the "Team Effectiveness" questionnaire (Northouse, 1997: 180-181).

Instructions: This questionnaire contains questions about your team and the leadership within this team. Indicate whether you feel each statement is true or not true of your team. Use the following scale.

Key: 1 = False, 2 = More False Than True, 3 = More True Than False, 4 = True

1. There is a clearly defined need or a purpose to be served that justifies the existence of our team.  
(Clear elevating goal)                      1            2            3            4
2. We have an established method for monitoring individual performance and providing feedback.  
(Results driven structure)                      1            2            3            4
3. Team members possess the essential skills and abilities to accomplish the team's objectives.  
(Competent team members)                      1            2            3            4

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4. Achieving our team goal is a higher priority than any individual objective.  
(Unified commitment)            1        2        3        4
5. We trust each other sufficiently to accurately share information, perceptions, and feedback.  
(Collaborative climate)            1        2        3        4
6. Our team exerts pressure on itself to improve performance.  
(Standards of excellence)            1        2        3        4
7. Our team is given the resources it needs to get the job done.  
(External support/recognition)            1        2        3        4
8. The team leader provides me the necessary autonomy to achieve results.  
(Principled leadership)            1        2        3        4
9. Our leader is willing to resolve issues associated with inadequate member performance.  
(Principled leadership)            1        2        3        4
10. Our leader is open to new ideas and information from team members.  
(Principled leadership)            1        2        3        4
11. Our leader is influential in getting outside constituencies to support our team's effort.  
(Principled leadership)            1        2        3        4

Scoring interpretation: In addition to such targeted questions on each of the eight criteria of excellence, the survey also asks open-ended questions to allow team members the opportunity to comment on issues that might not be specifically covered in the directed questions, such as strengths and weaknesses of the team and its leadership, changes that are needed, norms that are problematic, or issues that need to be addressed. The complete version of the survey is given to team members and the team leader, and all are involved in the diagnosis and in the resulting action planning. Such a method is clearly consistent with the empowerment movement in organizational teams and helps deal with the enormous complexity involved in making teams effective.

### F      Development

- 16      Training and development refers to a planned effort to facilitate employee learning of job related behaviors in order to improve employee performance; training denotes efforts to increase employees skills on present jobs, while development refers to efforts oriented toward improvements related to future jobs.
- 17      The training process includes the following phases:
- Assessment phase: identifying training needs, setting objectives, and developing training criteria against which to assess the results of the training program.
  - Need analysis: an assessment of an organization's training needs that are developed by considering overall organizational requirements, tasks associated with jobs for which training is needed, and the degree to which individuals are able to perform those tasks effectively.

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- Training design and implementation phase: determining training methods, developing training material, and conducting training; this can be on the job training.
- Evaluation phase: evaluating the results against the criteria developed during the assessment phase.

18 Typical training programs include:

- Orientation training: is a formal program designed to provide new employees with information about their jobs and the company.
- Technical skill training: is oriented toward providing special knowledge and developing facility in the use of methods, processes and techniques associated with a particular discipline or trade.
- Management development programs: focus on developing managerial skills for use at the supervisory, managerial and executive levels. The training of managers depends on whether the candidate is from the home environment, host environment or third environment (Ball et al., 2004).

19 Activity 1: design employment documents that includes job description, job specification, contract and immigration laws, to hire workers moving transnationally (class to be divided into teams to decide on the countries where workers will be hired, to explore immigration laws, design and present the documents)

Notes:

20 Activity 2: conduct interviews (class to be divided into teams of 2 interviewees to carry out interviews of 2-3 other students to be hired transnationally – use information from activity 1)

Notes:

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- 21 Activity 3: carry out a performance appraisal (appraise the performance of teams in terms of their interviewer skills)

Notes:

### Reference:

BALL, DONALD et al. (2004), *International Business: the Challenge of Global Competition*, 9<sup>th</sup> edition, New York: McGraw-Hill.

BARON, JAMES & KREPS, DAVID (1999), *Strategic Human Resources: Frameworks for General Managers*, New York: John Wiley & Sons.

BENNETT, ROGER (1998), 'Human Resources Management', in TIM HANNAGAN (1998), *Management: Concepts and Practices*, 2<sup>nd</sup> edition, London: FT-Pitman Publishing.

NORTHOUSE, PETER (1997), *Leadership: Theory and Practice*, London, Sage.

## 52. Transnational organizational communication

The aim of this session is to

- Explore communication.
- Explore organization communication.
- Discuss issues with examples.

### A The Nature of Communication

- 1 Communication is the exchange of messages between people for the purpose of achieving a common meaning because communication is a critical part in managing a business organization.
- 2 Types of communication include:
  - Verbal communication: is the written or oral use of words to communicate; both written and oral communications are pervasive in organizations.
  - Written communication: letters, memos, reports, resumes, messages, newsletters, policies; written communication is costly and very often of only fair to poor quality:
    - Advantages: provides a record of the message, can be disseminated widely with minimum of effort, allows sender to think through the intended message.
    - Disadvantages: expensive to prepare, relatively impersonal, possibilities of misunderstanding by the receiver, and delay on feedback regarding the effectiveness of the message.
  - Oral communication: face to face conversations, meetings, telephone conversations:
    - Advantages: fast, personalized and providing immediate feedback.
    - Disadvantages: time consuming, can be difficult to terminate, and requires additional effort to document if necessary.
  - Non verbal communication: is communication by means of elements and behaviors that are not coded into words; studies estimate that this aspect accounts for 65 to 93% of what is communicated.
  - Body language: body movements such as gestures, facial expressions, eye movements and posture.
  - Proxemics: the influence of proximity and space on communication.
  - Paralanguage: vocal aspects of communication that relate to how something is said rather than to what is said (voice quality and tone, laughing, yawning).

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- Object language: the communicative use of material things, including clothing, cosmetics, furniture and architecture (presentation).

Managers spend most of their time communicating in one way or another. If they tend to prefer oral over written communication it is because oral communication is usually more informal and timely.

### B Basic Components of the Communication Process

3 Communication according to the Shannon and Weaver model (Holden, 1998) involves:

- Sender: the initiator of the message; messages are usually initiated in response to an outside stimulus (question, meeting, problem, etc...)
- Encoding: the process of translating the intended message into words and gestures; the sender's choice will depend on such factors as encoding skills, assessment of the intended receiver's ability to understand various symbols, past experience, job status, education, emotional state, etc...
- Message: the encoding process outcome, which consists of verbal and non verbal symbols that have been developed to convey meaning to the receiver; the medium is the method used to convey the message to the intended receiver.
- Receiver: the person with whom the message is exchanged; there may be one or several.
- Decoding: the process of translating the symbols into the interpreted message.
- Noise: any factor in the communication process that interferes with exchanging messages and achieving common meaning (interruptions, static, fatigue, etc).
- Feedback: the receiver's basic response to the interpreted message. It involves a reversal of the communication process.

4 When the process does not allow feed back it is called one-way communication (e.g. newsletters, communication memos, announcements). With this type of communication there is a risk that miscommunication may not be corrected until it is too late. Two-way communication takes place when the process explicitly includes feedback. To be effective it requires that careful attention be paid to the communication process, in particular if several layers of the organization are involved.

### C Influences on Individual Communication and Interpersonal Processes

5 Perception refers to the process that individuals use to acquire and make sense out of information from the environment. The process is complex and involves several stages:

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- **Selecting:** the filtering of stimuli that we encounter so that only certain information receives our attention.
  - **Organizing:** the patterning of information from the selection stage. It can take the form of organizing information into the patterns that we expect to perceive.
  - **Interpreting:** attaching a meaning to the information that we have selected and organized.
- 6 The perception of individuals is affected by such factors as experience, needs, personality, culture and education. As a result individuals differ in their perception of the same situation and message.
- 7 Judgment as the way in which individuals make judgments, or attributions about the causes of another's or their own behavior. Such judgments often form the basis for subsequent action. We make causal judgments that are:
- Dispositional: attributed to internal causes (traits, efforts).
  - Situational: attributed to external causes (equipment, luck).
- 8 To make our judgments we consider:
- Consensus: the degree to which the behavior is similar to the way most people act in a given situation.
  - Consistency: the degree to which an individual behave the same way in this or a similar situation at other times.
  - Distinctiveness: the degree to which an individual behaves differently in other situations.
- 9 In making causal judgments managers need to be particularly aware of:
- Fundamental attribution errors: the tendency to underestimate the importance of situational influences and to overestimate the importance of dispositional influences in explaining behaviors.
  - Self serving bias: the tendency to perceive oneself as responsible for successes and others as responsible for failures. This would set the stage for very serious communication problems.

### D Organizational Communication Channels

- 10 An important consideration in assessing organizational communication is the movement of information throughout various parts of the company. Patterns of organizational communication flows are referred to as communication channels. These include (Holden, 1998):

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- Vertical communication: communication that involves a message exchange between two or more levels of the organization hierarchy:
- Downward communication: vertical communication that flows from a higher level to one or more lower levels in the organization: most downward communication involves information in one of five categories :
  - Job instructions related to specific tasks.
  - Job rationales explaining the relationship between two or more tasks.
  - Procedures and practices of the organization.
  - Feedback on individual performance.
  - Efforts to encourage a sense of mission and dedication to organizational goals.
- Upward communication: the vertical flow of information from a lower level to one or more higher levels in the organization; information disseminated through upward communication usually relates to :
  - Progress of current work projects.
  - Serious unsolved problems and situations in which subordinates need help from superiors.
  - New development arising within or affecting the work unit or organization.
  - Suggestions for improvements or innovations.
  - Employee attitudes, moral, efficiency.
- Horizontal communication: lateral or diagonal message exchange either within work unit boundaries, involving peers who report to the same supervisor, or across work unit boundaries, involving individuals who report to different supervisors. Managers spend about 1/3 of their time in horizontal communication, usually related to :
  - Task coordination.
  - Problem solving.
  - Information sharing.
  - Conflict resolution.
  - Peer support.

11 Organizational communication can be affected by (*see session 19*):

- Downward communication:
  - Faulty message transmission may occur because of carelessness, poor communication skills, difficulty of encoding a message so that it can be understood at multiple levels.
  - Overuse by managers of one way communication with little possibility for immediate feedback.
  - Filtering of information through withholding, screening or manipulating information. Intentional filtering occurs when managers seek to enhance personal power by tightly controlling organizational information.

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### ➤ Upward communication:

- Information favorable to the sender is very likely to be sent upwards, whereas information unfavorable to the sender will be blocked, even if it is important to the organization.
- Managers do not expend sufficient efforts in encouraging upwards communication.

### ➤ Horizontal communication:

- Rivalry among individuals or work units leading to hide information potentially damaging for themselves or that may aid others.
- Specialization may cause individuals to be mainly concerned with their area and have little concern for work and communication needs of others.
- Motivation may be lacking when communication is not encouraged or rewarded.

#### Reference:

HOLDEN, LEN (1998), 'Organizational Communication', in TIM HANNAGAN (1998), *Management: Concepts and Practices*, 2<sup>nd</sup> edition, London: FT-Pitman Publishing.

### 53. Managing change in the transnational environment

The aim of this session is to

- Approach change.
- Explore rational models on change.
- Explore non rational models on change.
- Discuss issues with examples.

- 1 Change can simply be seen as going from here to there i.e. from the current business condition to a desired situation.
- 2 Contrary to what is often advocated, globalization does not trigger change; if this were the case, globalization would be a novel phenomenon, which is not (*see session 7*). Globalization adds on what occurs either spontaneously in and with business organizations, or as a result of particular decisions, strategic for most part.

#### A Approaching Change

- 3 To follow Collins (1998: 9) in that management theory is often depicted as having gone through a number of evolutionary stages of thinking, so has the understanding of change. Organizational change has been first captured under what can be labeled as the classical approaches, which gave way to the human relations approaches, which in turn have been replaced by contingency theory, which has eventually given way to what Barnes (in Collins, 1998) calls guru theory.
- 4 Specifically, classical approaches to change management can be summarized under a scientific model of management<sup>2</sup> based on the following principles:
  - Change needs to be scientifically studied: managers need to overthrow the habitual or spontaneous work practices thus take the responsibility for the design and redesign of change on more rational lines.
  - Staff needs and changes are to be scientifically selected: managers need to ensure that staff selected and hired according to changing organizational needs must conform to organizational priorities set by managers since they know what is best for the organization.
  - Staff conforms to scientific principles so as to ensure mutuality and co-operation in the face of change: managers need to establish the necessary authority to implement their preferred system of work in a manner to minimize conflict during change.

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<sup>2</sup> Note that this approach was initially applied by Taylor for the purpose of increasing work speed in a large-scale factory production by breaking down craft skills in an attempt to reduce conflict between staff members; given the competitive and often antagonistic transnational social context, it is arguable whether such conflict can effectively be reduced.

- Change management should be divided in separate groups of workers and managers doing the tasks each is best suited for: managers should establish clear lines or responsibility to enable staff to earn according to the extrinsic rewards involved in the management of change.
- 5 Human relations approaches to change management can be summarized under a non-scientific model of management<sup>3</sup> based on the following principles:
- Staff understanding of change is emotional: managers need to manage the emotional content of staff faced with change and not only their rational content.
  - Organizational change should be thought as dependent on co-operative and social behaviors: managers should promote and cultivate group norms in order to tap the potential for coping with change effectively.
  - Organizations are composed of changing informal structures based on changing values and norms: managers need to change the formal system of responsibilities and authority in a manner to cultivate values appropriate for improved levels of productivity.
- 6 Contingency approaches to change management can be summarized under the open systems model of management<sup>4</sup> based on the following principles:
- Business organizations need to adapt to their environment: managers should scan the environment to understand the influences that affect their business.
  - There is no best way for the practice of management: managers have to cope with day-to-day contingencies and adopt practices to suit the situation.
  - There is a changing relationship between product, production system and control system: managers need to not only acknowledge that this relationship is bound to change but also ensure that it functions well for their own organization under the pressure of changing forces.
- 7 Guru approaches, to use Barnes (in Collins, 1998), focus on those individuals looked upon as being the most advanced in management thinking and who are capable of capturing the management of change<sup>5</sup> along the following principles:

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<sup>3</sup> Collins (1998) remarks that these approaches appear to stand in opposition to the classical approaches on the surface only as both fail to appreciate conflict within staff or between staff and management since they simply dismiss it: the former on grounds of a failure to select staff in a scientific manner and the latter in fulfilling staff needs; this means, contrary to what is often thought of, the humanist approaches did not replace classical approaches; the former simply highlighted some aspects that were undermined by the latter.

<sup>4</sup> Note that although the open systems model advises against one best way of thinking using the model implicitly introduces a deterministic way to describe business organizations; moreover it downplays the fact that managers may use technology as a means to transforming the nature of work thus reducing choice.

<sup>5</sup> According to Garrahan and Stewart (in Collins, 1998) the guru approaches downplay scientific forms of management despite the fact that they are widely used especially that they form the central component of empowerment associated with JIT and operations or production management in general.

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- The patterns of competition are changing: managers need to change their control systems to meet new challenges.
- Organizations need to adapt organic structural forms: managers need to be leaders able to counsel and facilitate the work of staff.

### B Modeling Change

8 From the above approaches two major stands of modeling change come about:

- Rational models.
- Non-rational models.

9 Rational models tend to approach the management of change through a blend of the principles found in classical and guru approaches displaying the following features:

- To give personal justifications whose value and appeal is based on the charismatic authority of the manager
- To offer solutions to contemporary problems that rest on having developed and researched new models; in particular have highlight that organizations need to
- To formulate quick and memorable guidelines for swift action taking, even self-assessment questionnaires thus keeping any theoretical issues to the minimum.
- To spend little time analyzing the environments and favor instead action that can reduce paralysis by analysis.
- To focus on actions hat can exceed customer expectations in the face of competitor strategies and moves in the market.
- To value innovation by adopting non-segmentalist and non-bureaucratic structures so as to enhance intrapreneurial ethos.
- To hire leaders and not managers who can avoid complacency when they are successful
- To employ skilled and committed staff who are given considerable degree of autonomy of action so as to be fast, flexible and focused.
- To balance out hard-S factors (i.e. strategy, structure, systems) and soft-S factors (i.e. style, skills, and super-ordinate skills).

10 Non-rational models tend to approach the management of change by blending to some degree the principles found in human relations and open systems approaches displaying the following features:

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- To search for options when faced with external and internal pressures in the attempt to achieve planned goals
- To adopt ad hoc policies when confronted with a larger and often hostile environment which is complex, and uncertain: the goals of any particular rationally-planned method *cannot* be clearly known since in planning and managing change managers attempt to match up to the needs of an environment which is poorly understood and changing.
- To manage change is an ongoing activity made to align and re-align the organization with the environment.
- To deal with the messy aspects of management which are often obscured and oversimplified by rational approaches to change management.
- To take advantage of imperfections for comparative advantage and business success.
- To implement policies that allow adaptive rationality and the gradual adjusting to environmental changes in markets.
- To cope with the differing objectives and interests put forward by the different economic agents.

Reference:

COLLINS, DAVID (1998), *Organizational Change: Sociological Perspectives*, London: Routledge.

## 54. Ethics and social responsibility

The aim of this session is to

- Explore perspectives of social responsibility.
- Set ethical standards for social responsibility.
- Examine the features of vanguard organizations.
- Discuss issues with examples.
- *Read business text*

*Class to have pre-read Reading 3; class to carry out the relevant activity*

- 1 Organizational (corporate) social responsibility refers to the obligation for an organization to seek actions that protect and improve the welfare of the community or the society the organization belongs to along with its own interests.
- 2 Organizational social responsibility has resulted from the expanded role of business organizations in society which has led to the emergence of two principles (Frederick, 1988):
  - Charity principle: the wealthiest members of society should be charitable towards the less fortunate.
  - Stewardship principle: management executives are seen as stewards who act in the public's interest.

### A Arguments and Perspectives

- 3 Arguments advanced in favor of organizational social responsibility include (Frederick, 1988):
  - Balances power with responsibility (iron law of responsibility): in the long run, those who do not use power in a manner that society considers responsible will tend to lose it.  
Example: organizations that are negligent as regards waste may eventually face restrictions and penalties.
  - Discourages state regulation: voluntary social acts may head off state regulation enhancing freedom in decision making.  
Example: where business organizations are able to provide for local institutions, state regulation to increase taxes for instance is not necessary.
  - Promotes long-run benefits: present investments although costly, may bring about long-term benefits.  
Example: a gift to the local engineering school might in time provide a flow of talented graduates to work for the company.
  - Improves public image: charity can enhance the low opinion one has of businesses.  
Example: Ben & Jerry's reputation has emerged from the recognition as a leader among socially responsible businesses.

- Responds to changing public needs: public demands for cleaner environment, quality products, and equal opportunities have put pressure on businesses to change their policies.  
Example: the economic contribution of a car company, such as Toyota, is not the only argument in favor of its implantation: it is both the economic and social effects that are accounted for.
- Corrects social problems caused by business: corrects market failures.  
Examples: socially responsible corporations are concerned with reducing payment differentials.
- Applies resources to difficult problems: business organizations have resources that public institutions may not have, resources that can be used for addressing social needs.  
Example: Timberland has in place programs to address the social needs of the localities that have accepted the construction of its production facilities.
- Recognizes business's moral obligations: businesses have the obligation to conform to the moral maxims, laws and obligations of a society.  
Example: if pay discrimination is not tolerated it is expected that business organizations do not practice it.

### 3 Arguments advanced against organizational social responsibility include (Frederick, 1988):

- Lowers economic efficiency and profits: businesses are efficient as they seek to optimize the use of their resources.  
Example: a business will prefer to close or delocalize a production site if its economics so require.
- Imposes unequal costs among competitors: since social responsibility is often translated in higher costs, socially responsible businesses may lose ground against their competitors.  
Example: if the Swiss economy requires higher pollution control standards it imposes higher costs on its businesses compared to those found in NIEs.
- Imposes hidden costs on society: if businesses are required to pay more so as to conform to expected social responsibility, imposing an increase in prices, the overall cost for society is inflation.  
Example: an increase in VAT paid by businesses to finance environmental projects is met by an increase in the prices.
- Creates unjustified public expectations: measured social responsiveness is often exaggerated so it is best not to make it public.  
Example: society may expect unreasonable actions to be carried out by a business following a public announcement of its CEO.

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- Gives too much power to business: curbing some of the business influence is desirable  
Example: multinational corporations such as Nestlé are socially and economically influential by their size and it is therefore desirable to reduce their scope of influence.
- Requires special social skills that business organizations lack: business people are not trained to address social issues.  
Example: businesses are not trained to cope with teenage drug abuse.
- Lack of social accountability: there is no direct and explicit evidence linking the accountability of business organizations and the public.  
Example: in the case of delocalization, the domestic economy can do nothing about it.
- Places the responsibility on corporations rather than individuals: only individual persons can be held accountable for their actions and not business entities because it is the former who take the decisions.  
Example: the decision to donate funds to a charity is a decision made by individuals and not the business corporation as a whole.

4 From the above it seems that organizational social responsibility is described through the following viewpoints:

- The (invisible) hand of the market: this view holds that the entire social responsibility of a corporation can be summed up as “make profit and obey the law”. Social responsibility is guided by the invisible hand of free market forces by ensuring that resources are allocated efficiently for the betterment of society.
- The hand of government: this view argues that the interest of society is best served by the state through the regulatory application of policies and laws rather than the invisible hand of the market given the market failures in allocating resources.
- The hand of management: this view states that corporations and their managers are expected to act in ways that protect and improve the welfare of society as a whole as well as advance corporate economic interests.
- The hand of stakeholder: this view states that ethical issues arise according to the nature of and the demands made by particular types of stakeholders in business organizations (that includes owners, employees, management, clients, suppliers, state officials, administrations, local community).

### B Managerial ethics

5 Managerial ethics are standards of conduct or moral judgment used by managers in carrying out their business along three approaches:

- Immoral management: an approach that not only lacks ethical principles but is actively opposed to ethical behavior. It is characterized by the exclusive concern for company

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success at virtually any price hence a willingness to manage employees and use laws only in manner that suits the business organization.

- Amoral management: an approach that is neither immoral nor moral, but rather ignores ethical considerations. Intentionally amoral managers do not include ethical concerns in their decisions and actions because they think that ethical standards not appropriate to non-business areas of life. Unintentionally amoral managers do not think about ethical issues in their business dealings because they are inattentive or insensitive to the moral implications of their decisions or actions.
- Moral management: an approach that strives to follow ethical principles and precepts. While moral managers also desire to succeed they seek to do so within the parameters of ethical standards and the ideals of fairness, justice and due process.

6 Common sense ethical guidelines can be helpful in thinking about the ethical implications of managerial decisions and behaviors and these include:

- Obey the law – respect the letter and understand the spirit.
- Tell the truth – build trust.
- Show respect for people – respect the individual and value diversity.
- Stick to the golden rule – treat individuals fairly just as you would want your business to be treated as if it were an individual.
- Above all do no harm – do the good around you so that it turns around.
- Practice participation not paternalism – learn about the needs of stakeholders, rather than deciding what is best for them.
- Always act when you have responsibility – act when those nearby are in need.

7 The following mechanisms can be used to enhance ethical management and social responsibility:

- Codes of ethics: a document prepared for the purpose of guiding organization members when they encounter an ethical dilemma.
- Ethics committees: a group charged with helping to establish policies and resolve major questions involving ethical issues confronting organization members in the course of their work.
- Ethics audits: systematic efforts to assess conformance to organizational ethical policies, aid understanding of these policies and identify serious breaches requiring remedial action.
- Ethics hotlines: a special telephone line established to enable employees to bypass the normal chain of command in reporting grievances and serious ethical problems.

### C Socially Responsible Organizations

8 Socially responsible organizations (vanguard companies) put an emphasis on

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- The responsibilities of management:
  - Economic and legal responsibilities which involve making a profit and obeying the law.
  - Ethical and discretionary responsibilities that include behaviors and activities that are expected of business organizations by society.
- The recognition of the needs of the social stakeholders that include:
  - Shareholders: recognition of their role in shaping the social and ethical stance of management.
  - Employees: recognition of the importance of employees and obedience to laws relating to employer-employee relationships.
  - Customers: recognition of customer concerns over health and safety matters, quality issues, and product liability.
  - Local community: recognition that businesses receive support from communities in terms of the infrastructure and state logistics for the benefit of the business.
  - Society: recognition of regional and national issues such as educational reforms.
  - International community: recognition of transnational issues in terms of the impact business activity has on environment.
- Higher purposes:
  - Profit is the means rather than the end of corporate efforts.
  - Continuous learning is the means for being socially responsible.
  - Flexibility, change and responsiveness are vital to organizational survival.
  - Dedication to being the best at everything the organization does.

9 Vanguard companies have mechanisms to monitor social demands and expectations, which typically include:

- Social forecasting: the systematic process of identifying social trends, evaluating the organizational importance of those trends, and integrating those assessments into the organization's forecasting program.
- Opinion surveys: conducted by associations and business publications they often provide useful feedback.
- Social audit: a systematic study and evaluation of the social, rather than the economic performance of an organization, which includes an assessment of the social impact of the firm's activities, an evaluation of programs specifically aimed at achieving social goals.
- Issues management: the process of identifying a relatively small number of emerging social issues of particular relevance to the organization, analyzing their potential impact, and preparing an effective response as an attempt to minimize 'surprises' resulting from environmental forces and to facilitate a proactive stance towards environmental changes.

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- Social scanning: the general surveillance of various elements in the environment to detect imminent change that can affect the organization's social responsibilities carried out on an informal and unsystematic basis where executives often draw on their own experience of factors that are likely to have important organizational implications.

10 Activity: assess the ethics of Enron and WorldCom (class to be divided into 2 teams to research and present the ethical issues and dilemmas surrounding these two corporations)

Notes:

Reference:

FEDERICK, WILLIAM et al. (1988), *Business and Society: Corporate Strategy, Public Policy, Ethics*, 6<sup>th</sup> edition, New York: McGraw-Hill.