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INTERNATIONAL BUSINESS

Tutorial

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The tutorial "International Business" is compiled in accordance with the work program of the course. Provides a systematic, logical explanation of the laws and objective principles of formation and development of the external and internal environment of international business at the beginning of the XXI century. Special attention is paid to the issues of internationalization of production, globalization and modern tendencies of development of multinational corporations, as well as strategies and organization of activities of international companies. The theoretically structured material is harmoniously supplemented with practical tasks-cases, which should provide high interest in the study course.

The edition is intended for English speaking students. It can also be useful for teachers, researchers, graduate students, heads of different levels of hierarchy of international companies, civil servants and those interested in contemporary problems of international business.

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PREFACE

In today's conditions, aggravation of competition on the domestic labor market against the activation of European integration process, the demand highly qualified managers of foreign economic activity from the side international business structures is significantly increased. The training of competitive international managers must necessarily include acquiring of qualitative and actual knowledges in discipline "International business". To date, the absence of training materials in educational area, which would provide for not only accessible and consistent presentation of course for students, but effective synthesize of theoretical and applied material in the discipline "International business", has initialized the preparatory process for publication of qualitatively new edition.

It should be noted, that the tutorial "International business", prepared by PhD in Economics, Assoc. Prof. O.M. Faichuk and PhD in Economics, Assoc. Prof. O.V. Faichuk is modern edition and fully complies with the active program of discipline. The purpose of this edition is disclosing and support of fundamental factors of formulation international business external and internal environment. As a result, it will allow to form analytical worldview and the system of theoretical and applied knowledges for implementing the effective management at different hierarchical levels in international companies in future specialists.

The training manual provides for systematic, logical explanation of process of strategic management of enterprises of international business, organizational principles of construction of international companies, ways of realization of firm's access to international market. Particular attention is paid to issues of business internationalization under the influence of globalization and regional economic integration as well as economic nature of multinational companies and their contemporary transformations.

It should be stressed, that educational edition is designed in accordance with advanced Western educational works: fundamental theoretical material is consistently supplemented with examples from international business practice.

At the end of the tutorial there is a general terminology dictionary, working on which will give the opportunity to simplify the process of studying the material from the course "International business".

PART I

Conceptual basis for the formation of the external environment of international business

CHAPTER 1

INTERNATIONAL BUSINESS IN THE EPOCH OF GLOBALIZATION

1.1. The essence of conception «international business»

1.2. Forms of international business activities

1.3. Globalization and its influences on the behavior of international companies

<u>*Case 1.1.*</u>
«The fourth industrial revolution: myth or reality»

Global companies are already writing new rules of the universe: conveyor production and cheap labor are passing into history. By ignoring this trend now, Ukraine will remain forever on the margins of world economy.

Busy with war and internal transformations, it is difficult for Ukraine to pay attention to external events, if they do not effect on it. But from this rule should be drawn the conclusion for industrial revolution, which begins to unfold right now in the USA, Germany, Chine and in several other countries.

The forth industrial revolution - this term is not contrived by journalists. It was actually launched by industrials, who began this revolution. About two hundreds of companies and scientific centers have been registered in the ranks of revolutionaries, many of them – with global name. Their representatives meet quarterly on forums, where not only plans are discussed, but also rules of new world order are approved.

This plans and rules, at first glance, are not about essential things. Indeed, we are talking about dozens (and then hundreds) billions of sensors and devices will be connected to a single world-wide network – the industrial *internet. It looks (in fact, as it is) as the development of the idea of things about which the talks had been being from the last century.*

But there is one significant difference between production and household levels. Nobody among household users will get instant benefits from turning their home into so-called "smart" home. Nevertheless, businessmen who initiated the industrial revolution are counting on gaining competitive advantages, which will allow them to straighten their positions in the market and weaken the positions of competitors. The latter may work on old principle till they notice that the consumes abandon their products, revenues no longer cover costs and it is more profitable to close production than to save it.

Therefore, domestic companies and all Ukrainians should pay attention to the trend that is beginning now in the world largest economies. Changes will apply not only to the production process. The forth industrial revolution promises to radically reorient industry turning it from conveyor production, which is designed for mass consumer, to the so-called additive production, which satisfies the demands of individual client. There will be new opportunities for inventors and new field of business that can be called social production. This changes in turn will effect on the structure of society in different aspects: education, employment, choice of place of residence, etc.

On a global scale, the forth industrial revolution must lead to significant changes in world division of labor.

Source: *Vyshnevsky Yu. "The Power of Money." - 2015 - No. 9/434. - P. 25-47.*

Glossary:

Globalization (lat. Globus) *is a process of shift towards a more integrated and interdependent world economy.*

An international company *is any organization that conducts its business on the basis of entering into commercial agreements with individuals, private companies and / or state organizations of foreign countries.*

International business *is the business of partnering with more than one country*.

The world economy *is a dynamic system of interconnected national economies and relations between their respective subjects of economic life, which operates on the principles of international division of labor and covers all stages of the economic reproduction cycle.*

1.1. The essence of conception «international business»

International business (hereafter IB) is the implementation of business operations by partners from more than one country (e.g. purchase of commodity and materials in one country and their transportation to another country for further processing and collection; transportation of completed products from one country to another with a view to selling in the retail distribution system; the construction of factories in foreign countries in order to obtain income based on the cheaper labor;

receiving a credit in one country to finance transactions in another state etc.).

Key distinguish features between international business and the internal business:

- use of different currencies that leads to necessity of currency conversion at least one of the sides.
- existence of different legal system. One side or more should make correction of their actions to align them to local laws.
- different cultures. In different countries every side of IB is made to form the strategy of their behavior in a way that is in line with the expectations of other party.
- different composition and number of affordable sources in each country. One country may have more resources, but no qualified labor, while the other has productive, highly qualified labor but in the same time feels the lack of natural sources.

1.2. Forms of international business activities

The main forms of international activity include:

1) export and import

Export is selling of products produced in own country for the purpose of their subsequent use or resale in the territory of other states.

Import is the purchase the products produced in other countries for the purpose of their subsequent use or resale in the territory of own country.

All export-import operations are divided into two groups:

a) A trade in products (material products, such as clothing, computers and also raw materials). In official US government documents this kind of trade is referred to as "merchandise export and import". In Great Britain, the term "visible trade" is used to refer to this concept.

b) A trade in services (intangible products, such as banking, transport and accounting services). In USA this kind of trade is called "services exports and imports"; the British label it with the term "invisible trade".

In many cases, export is crucial for financial well-being of company (Boeing has 53% of sales of airplanes to foreign consumers. It allows to create tens thousands of workplaces at the company's own enterprises, and even more – at enterprises of suppliers of spare parts and components.

2) *foreign investment* is a transfer of capital by residents of one country for further its use by residents of other country. They are divided into two groups:

a) foreign direct investment (FDI) – is a capital investment with a view to acquiring and real control over property, assets and entire companies in other countries. The country in which the headquarter of parent country is located is the country of origin, and the country in which this company conducts a business is the country, which accepts investment or the host country (The company Ford Motor Company acquired all the usual shares of the Sweden company Volvo Corporation. After the purchase of this shares Volvo was sent to specialists, whose task was to control company's activities);

b) portfolio investment is the acquisition of foreign financial assets (stocks, bonds and deposit certificates), that is not intended to control (the purchase of thousand ordinary shares in Sony's Danish pension fund in order to increase the rate of return on their fixed assets, rather than gaining over decision-making process in Sony);

3) ***licensing*** involves the conclusion of contract under which the company located in one country issues a license to use its intellectual property (patents, trade mark, trade name, copyright, or production secrets) for exchange for a royalty payment (Walt Disney Company can give German clothing company a permission to issue children's pajamas featuring the smiling Mickey Mouse on the terms under which this company pays a percentage of sales);

4) ***franchising*** is special form of licensing, the gist of which is that a company located in one country (franchiser) issues permission to use their technology of production, as well as brand, trade brand and logo to company in another country (franchisee) in exchange for royalties (McDonald`s Corporation sells the right to open fast food restaurants around the world);

5) management contract - an agreement whereby a company in one country gives a firm located in another country the consent to manage the capacity of that firm or to provide other management services for a certain remuneration (the amount of which is stipulated in the contract). Management contracts have become widespread among the largest companies operating in the hotel business (Marriott and Hilton do not always have expensive hotels that bear the names of these brands and can be found all over the world - they only manage these hotels on terms, provided in the relevant contracts).

A company that uses business operations such as export or import, foreign investment, licensing, franchising or management contracts can be called an ***international company.***

An international company is any organization that operates on the basis of commercial transactions with certain persons, private firms and / or government organizations of foreign countries.

Case 1.2.
«"Vizio" and the market of flat-screen TVs»

Originally, they were panels of thin glass, which were manufactured in high-tech production in South Korea, Japan and Taiwan. By managing complex tools in an environment in which absolute purity should be maintained, the workers of this production created sheets of glass in exact accordance with the requirements of the technological process. From there, these panels were transported to Mexican factories, located along the US border. Here they were given the required sizes, completing the electronic components that were made in the countries of Asia and the USA, then turned into ready-made televisions and sent on trucks to American consumer electronics stores. In general, it is a large business. US consumers spend more than $ 35 billion a year on flat-screen TVs.

The basic technology of manufacturing such screens was invented in the United States in the late 1960s by the efforts of RCA. But after the RCA itself and its rivals Westinghouse and Xerox refused to use the new technology, the Japanese company Sharp has invested heavily in the creation of flat-screen TVs. In the early 1990's, Sharp sold its first flat display, but since the Japanese economy entered a decade of recession, the leadership in investment in this area has moved on to South Korean companies, including Samsung. Then in 1997, the Asian crisis hit Korea's economy, and the leadership passed to Taiwanese companies. Today, Chinese companies are beginning to set the tone in the production for flat panel displays.

As the production of flat displays migrates around the world in search of a low cost site, as a result of this process, its winners and losers appear. American consumers who can buy flat-screen TVs at lower prices get real benefits. Efficient manufacturers benefit from a globally dispersed supply chain and produce and sell high-quality flat-screen TVs with low cost. Among them the California company Vizio, founded by a Taiwanese immigrant, features prominently. For six years, it has increased revenues from the sale of flat-screen TVs from almost zero to $ 2 billion in 2008, and in 2009 it has become the largest supplier of this product to the US market, capturing 21.7% of it. However, on the stuff of Vizio there are fewer than 100 employees. They mainly deal with the design of finished products, sales and customer service. Vizio prefers to transfer contractors most of the engineering work, all production and almost all logistics operations. For each model, Vizio selects a team of partner suppliers that are spread around the world. For example, for one of the new models of *televisions, a flat screen of 42 inches on the diagonal made in South Korea, an electronic filling - in China, processors - in the United States. TV sets are made in Mexico. Managers Vizio continuously travel around the world in search of the cheapest manufacturers of flat screens and electronic components. They sell most of their TVs through major retailers like Sostco and Sam`s Club. The transparency of orders coming from retailers and the successful management of global logistics allow Vizio to make stock turnover in three weeks, twice as fast as many competitors, providing significant cost savings in the industry, which product prices are constantly declining.*

At the same time, switching to flat screen TVs has had an adverse effect on some sectors of the economy, including those involved in the production of traditional cathode tubes in areas with high production costs. For example, in 2006, Japanese Sanyo dismissed 300 workers from its company in the United States, while another Japanese firm, Hitachi, closed a South Carolina TV plant, with the result that 200 people lost their job. It is clear that both Sanyo and Hitachi continue to produce TVs under their brands, but these are flat-screen TVs that are being collected in Mexico from parts produced in Asia.

***Source:** Hill Charles. International Business. [8th ed.] / Ch. Hill. - St. Petersburg: Peter, 2013. - P. 28-30.*

1.3. Globalization and its influences on the behavior of international companies

Globalization is a continuous, long-lasting and steady process of integration of markets, sovereign states and technologies that allows certain individuals, corporations and sovereign states to establish, with a minimum of costs, deeper contacts with partners that are scattered throughout the world faster than before.

There are a number of basic reasons why firms are becoming more global in the context of the overall course of development:

1) ***use of core competencies of the company;*** core competence defines an excellent strength or edge that is of paramount importance for the company's success (Nokia has developed the latest cellular phone technology that has been adopted by consumers both in the domestic market of Finland and in foreign markets);

2) ***resource purchases*** (North American food dealers, buying coffee and bananas in South America, Japanese firms buying timber and timber products in Canada, companies from all over the world buying oil in the Middle East and Africa);

3) ***search for new markets.*** When the domestic market where the company sells its products becomes fully established, it is harder and harder to generate high revenues and profit growth (Procter & Gamble, Unilever and Colgate-Palmolive cannot count on a significant increase in the sales of their toothpaste in the markets of Canada, the USA and EU countries, and therefore these companies were forced to begin to actively develop markets of countries such as China, India and Indonesia). In addition, this strategy has two advantages. First, the company may have the opportunity to achieve economies of scale on the basis of reducing the average production costs per unit of production with an increasing production. Secondly, the development of new markets allows the company to diversify the way revenue is received.

4) ***the need to compete more effectively*** (Coca-Cola is extremely active in the global market, so Pepsi-Cola

has no choice but to do the same to keep up with its main competitor).

The expansion of international business operations to the scale that was recorded after the Second World War would have been impossible without significant political changes (reducing trade barriers) and technological business conditions (improving communications and transport).

Case 1.3.
«Protests against globalization in France»

In the evening of August 1999, ten people under the leadership of a farmer-shepherd and a local rural activist, José Beauva, entered the town of Millo in central France and demolished the McDonald`s restaurant, which was building there, damaging the company for 150 thousand dollars. However, these people were not ordinary vandals, in particular, according to their adherents, because the "symbolic destruction" of McDonald's institution was aimed at "noble goals". This attack was initially presented as a protest against US trade policy. The European Union has banned imports of American beef from farms where animals were given special growth hormones, mainly because of fears that it could harm the health of the population (although European scientists have found that this meat is not dangerous). After a careful analysis of the situation, the WTO came to the conclusion that the ban was not in line with the trade rules that the EU and the US should abide *follow and that the EU should lift the ban. The EU refused to comply with this decision, and the US government imposed a tax of 100 per cent on imports of certain EU products, including French specialties such as foie gras, mustard and Roquefort cheese. Farmers near Millo Bove bred sheep whose milk was used to make Roquefort. They were outraged by the fact that they found out about the new American duties and decided to take revenge on McDonald's.*

Bove and several of his comrades were arrested. They quickly became the focus of anti-globalist activists in France who protested against everything – from the loss of national sovereignty and the "unfair" trade policy of imposing French consumers the meat grown with the use of growth hormones to littering French culture with American values that so vividly presented by McDonald`s. France's then prime minister, Lionel Jospin, called J. Bove's case "fair." Bove, who were allowed to stay free during the investigation period, went to Seattle in December of the same year to participate in protests against the WTO, where he was treated as a hero of the anti-globalization movement. The court, which took place in July 2000, attracted about 40,000 supporters of Bove in a small town of Millo, who broke an encampment opposite the courthouse for a waiting period for the verdict. Bove was found guilty and was imprisoned for a period of three months, which was much less than the maximum term of five years provided for in this article. His supporters were dressed in T-shirts with the inscription: "The world is not a commodity, I am not a commodity."

At about the same time, in the French province of Languedoc, California wine Robert Mondavi reached agreements with the mayor and municipality of Anian *village and the provincial government to convert a land plot of 125 acres on the sloping hill of a village belonging to the vineyard. Monady planned to invest $ 7 million in the project in order to produce high-quality wine for sale in Europe and the United States at a price of $ 60 per bottle. However, local ecologists have protested to his plan, which, in their opinion, threatened to destroy the unique natural heritage of this territory. Jose Bove offered ecologists their support, after which protests began. In May 2001, the mayor-socialist, who supported this project, lost local elections. During the election campaign, the main theme of the political debate was the initiative of Mondavi. Coming to the position of mayor-socialist, communist Manuel Dias called the project a capitalist conspiracy aimed at enriching American shareholders, detrimental for local people and the local nature. After the victory of Dias, it was announced that Mondavi rejects his project. The spokesperson for the company, headed by Mondi, stated: "We spent a lot of money on the project, but there are personal ambitions and political forces with which we cannot do anything."*

But are the French really opposed to foreign investment? The stories of McDonald`s and the Mondavi project are likely to allow you to think that way, but a more focused view allows you to see a slightly different picture. McDonald`s already has more than 800 restaurants in France and continues to work successfully in this country. In fact, France is for McDonald`s one of the most profitable markets. France has long been one of the most attractive places for foreign direct investment, and in 2006-2008, the volume of FDI in this country amounted to over $ 450 billion - much more than in any European economy except British. In these investments, the proportion of American companies has always been *high enough. In addition, French firms themselves are large foreign investors: about 1100 French multinational enterprises provide about 8% of the accumulated amount of global direct foreign investment.*

Source: *Hill Ch. International Business. [8th ed.] / Ch. Hill. - St. Petersburg: Peter, 2013. - P. 54-55.*

CONTROL QUESTIONS:

1. What is an international business?
2. What is the difference between international business and internal business?
3. What do you know about the main forms of international business?
4. What form of international business do you think is the cheapest option for foreign expansion?
5. What is the difference between franchising and licensing?
6. What is an international company?
7. What are the basic reasons for firms to become global?
8. What is Globalization?
9. How do you understand the concept of "core competency" of the company?
10. What is the fundamental difference between direct and portfolio foreign investments?

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CHAPTER 2

PARTICULAR ROLE OF CULTURE IN THE FORMING OF INTERNATIONAL BUSINESS

2.1. The essence of the concept "culture" and its determinants

2.2. Culture and workplace

2.3 Changes in culture and their impact on the practice of international business

Case 2.1.
«McDonald's in India»

In many ways, McDonald's Corporation wrote a book about the golden global expansion. On average, four new McDonald's restaurants open every day around the world. The company has more than 30,000 establishments in 120 countries, serving more than 60 million visitors every day.

One of the last big countries, that accepted McDonald's, was the India in which the company began to open its restaurants in the late 1991's. Although India is considered a poor country, its large and somewhat prosperous middle class, estimated at 200 million people, to which was drawn attention by McDonald's. India, however, has set challange for McDonald's. For thousands of years, the Hindu culture of this country honored cows. In ancient Hindu books it is argued that a cow is a gift of gods to human beings. The cow represents the Divine Mother, supporting all people. The cows give life to the bulls on which the land was plowed; Cow's milk is highly valued and widely used for making sour cream and butter, cow's urine has a special place in traditional Indian medicine, and cow's manure serves as fuel. About 300 million homeless cows roam around the country, revered as sacred animals. They occur everywhere: crawling along the roads, grazing on lawns, resting in temples. And they are not found only on plates, as the Hindus do not eat the meat of these sacred animals for them.

McDonald's is the world's largest beef consumer. Since its inception in 1955, countless amount of cows have been killed for the sake of the production of Bigmaks. How can a company whose well-being was based on the use of beef to penetrate a country in which the consumption of cow meat is considered a serious sin? Use pork instead of beef? However, 140 million Muslims live in India, and Muslims do not eat pork. Remains chicken and lamb. McDonald's reacted to this cultural and gastronomic dilemma by creating an Indian version of the Bigmak - the so-called Maharaja-Maka, for which lamb was used. Among other novelties of the menu, taking into account local specifics, "Mak-Alo Tikki Burger" can name , which is made using chicken meat. All dishes are clearly divided into vegetarian and non-vegetarian according to the traditions of this country, where many Indians are vegetarians. According to McDonald's Indian executive director: "We had to invent a lot to fit local tastes." Indeed, 75% of the dishes in the McDonald's menu in India are prepared in accordance with national traditions.

For some time it seemed that everything was going well. Then in 2001 McDonald's was literally shocked by the lawsuit filed against him in the United States by three Indian businessmen living in Seattle. Businessmen were vegetarians, and two of them - supporters of Hinduism. They accused McDonald's of "deliberately concealing" the fact of the presence of beef in French fries! McDonald's argued that he used exclusively vegetable oil to make fried potatoes, but later admitted that he had added "insignificant" amount of beef extract to the oil. According to the court, McDonald's paid a $ 10 million fine and officially apologized, which contained the following words: "McDonald's brings sincere apologies to

Hindus, vegetarians and all its customers for not providing all the information they need for a reasoned choice of dishes in US restaurants." For the future, the company promised to provide more complete infor use of ingredients and find substitutes for beef extract that they add to vegetable oil.

However, in the XXI century. In our global society, the news spreads very quickly, and after the announcement that McDonald's is using beef extract in vegetable oil, Indian nationalists who made a pogrom in one of McDonald's restaurants cousing damage to the company at $ 45,000, came out on Delhi Street. They cried out the menacing slogans in front of the door of other restaurants, arranged pickets near the headquarter of the company and demanded the Indian Prime Minister to close all McDonald's establishments in the country. McDonald's Indian franchisees have quickly tried to refute allegations of using beet extract in vegetable oil, but extremists have begun demanding official laboratory analysis.

However, the received comments may have had a weak impact on the long-term plans of McDonald's in India. The company continued to open restaurants, and by 2008 their number had reached 136, and by 2011 it had tripled. When Indians are asked why they go to McDonald's restaurants, they answer that their children like the "American" atmosphere, that the quality of the dishes is invariably at a good level, and in the toilets is always clean!

***Source:** Hill C. International Business. [8th ed.] / Ch. Hill. - St. Petersburg: Peter, 2013. - P. 74-75*

Glossary:

Ethnocentrism *is the individual's perception of the superiority of his or her ethnic group or culture over other groups or cultures.*

Customs *are social conventions of daily life.*

Culture *is a system of values and norms that are adhered to by groups of people and that collectively define the program of life.*

Language *is a verbal and non-verbal means of communication.*

Moral *foundations are the norms that are fundamental to society and its social life.*

Norms *are social rules and guidelines that determine the proper behavior of people in specific situations.*

Religion *is a system of general beliefs and rituals related to higher powers.*

Society *is a group of people who share values and norms.*

Values *are abstract ideas of what a group of people think is good, right and desirable.*

2.1. The essence of the concept "culture" and its determinants

Culture is a system of values and norms, which are followed by groups of people and who collectively set a program of life. In turn, the ***values*** should be understood as abstract ideas that a group of people considers good, right and desirable. Under the ***rules***, it is worth considering social rules and guidelines that determine the proper behavior of people in specific situations. ***Standards can be divided into 2 major categories:***

1) customs are the social conventions of everyday life (have a slight moral significance); (attitude to time uin different cultures: business people in the US, UK, Germany are paying a lot of attention to drawing up their own business schedules and are outraged when they have to wait for a negotiating partner because they treat time like money, but in Arabic, Latin American and Mediterranean cultures the meaning of time is more extended, businessmen from Saudi Arabia can come a week later, promising to be tomorrow due to their nomadic Bedouin past, where time was not of great importance);

2) moral standards are standards that are fundamental for society and its social life (they are much more important than customs); (convictions of theft, family betrayal, incest, cannibalism, etc.). In many societies, some moral foundations are legislated (in all developed societies, there are laws against theft, incest, and cannibalism. However, if America's consumption of alcohol is permissible, then in Saudi Arabia it is seen as a violation of important public canons and punishable by imprisonment).

Society is a group of people who have common values and norms.

The main determinants of culture include: social structure, religion, language, education, political philosophy and economic philosophy.

1) social structure is a fundamental social organization.

Social structures can differ in 2 dimensions: the demension of the *"individual-group" and the degree of stratification.* In many Western societies, an individual is the basic building block of a social organization, when its social status is determined not so much by what it does, but by its individual results in all spheres of activity. Individualism encourages the development of entrepreneurial activity, where new products are created (USA). It also manifests itself in the active migration of managers between companies, which can have a negative consequence due to the lack of knowledge, experience and personal relationships to solve current problems. In many non-Western societies, the main unit of social organization is a group (in Japan, the social status of the individual is also determined by the status of the group to which it belongs). The close identification of the individual with the group reinforces mutual assistance and activates collective action. All societies are hierarchically divided into social categories or social stratas. These strata are usually based on characteristics such as marital status, occupation, and income. All strata differ in social mobility. *Social mobility* is an opportunity for individuals to leave the social stratum in which they were born. The most rigid stratification system is the caste system. *The caste system* is a closed stratification in which the social status of an individual is determined by the social status of his parents and the change in the state of the individual during his lifetime is usually impossible (India has 4 castes and thousands of podcasts). *The class system* is a less rigid social stratification system that allows social mobility. With it, the condition of a person at birth can be changed due to her personal achievements and successes (Britain has a tougher class structure than most of the Western powers). In societies that recognize the division into classes, there is a low social mobility and a high degree of stratification. In societies that are endowed with less distinct class consciousness, social mobility is high, and the degree of stratification is negligible;

2) religion is a system of common beliefs and rituals that relates to higher forces. Among the housands of religions, 4 are dominant in terms of the number of parishioners: Christianity - about 1.7 billion followers, Islam - about 1 billion followers, Hinduism - about 750 million followers and Buddhism - almost 350 million followers. Sociologists believe that Protestantism has the greatest influence on the development of the economy (in 1904 the German sociologist Max Weber stated the connection between Protestant ethics and the "spirit of capitalism"). In Islam, the Koran justifies private entrepreneurship and the acquisition of legitimate income from occupations by handicrafts and commerce. In Muslim countries, profit is allowed, if only this profit is earned honestly and not at the expense of the exploitation of many people. It also promotes charity, yobservance of contractual obligations, observance of the word and avoiding deception. One of the economic principles of Islam prohibits the payment and charging interest on a loan! Followers of Hinduism believe that the desire for material wealth prevents the achievement of nirvana, that is, it slow down entrepreneurial activity. In the system of the Confucian system of ethics, the central place is occupied by: loyalty, mutual commitment and honesty in dealing with other people;

3) language is verbal and nonverbal means of communication. Today the language of international business is *English*. International firms whose managers do not know the local language can make false decisions because of linguistic issues (*Sunbeam Corporation*, which has launched its hair curling irons called *"Mist-Stick"* on the market in Germany only after having an expensive advertising campaign found out that german *mist* means "pus");

4) education. In terms of international business, the important aspect of education lies in its role as determinants of national competitive advantage. The general level of education in the country also shows a good indicator of what goods can be sold in it and which means of stimulating sales to use.

2.2. Culture and workplace

Of great significance for an international firm that operates in different countries is how the culture of society affects the values that are characteristic for the workplace. Psychologist Gert Khofstede studied the relationship between culture and values specific to the workplace, working as a psychologist at IBM. He singled out ***4 main dimensions that the most fully characterized the peculiarities of different cultures:*** (1) - the distance of power, (2) - the rejection of uncertainty, (3) - individualism-collectivism, and (4) - manhood-womanhood.

Measuring *the distance of power* determines how society perceives the fact of inequality of people in terms of their physical and mental abilities. Cultures with a high power distance are found in countries that allow these inequalities over the time to develop into inequalities in terms of power and wealth.

Measuring *the rejection of uncertainty* characterizes the degree to which different cultures prepare their members to manifest tolerant attitude to uncertainty in any situation. Representatives of cultures with a high degree of rejection of uncertainty attach great importance to safeguards for the preservation of the workplace, the predictability of career development, pensions, etc.

Measurement of *individualism-collectivism* characterizes the interdependence between an individual and its colleagues. In individualistic societies, the connections between people are less rigid, and personal achievements and personal freedom are given high significance.

Measurement of *masculinity-femininity* assesses the relationship between gender and work roles. In the cultures of masculinity, the role of the genders differs considerably, and the ideals of such cultures are defined by traditional "male values", such as the achievement and effective use of power. In the cultures of öfamininity, the role of the genders is not so significant, and when performing the same work, men and women have a weak gender differentiation.

In the US, Canada, and the United Kingdom, there are higher individualism rates and lower rates of distance of power. In the countries of Asia and Latin

America, collectivism and high power distances prevailed. Japan's culture is characterized by a strong rejection of uncertainty and high masculinity. Sweden and Denmark - low rejection of uncertainty and a low level of masculinity, as there is a high emphasis on "female" values.

Case 2.2.
«General Electric» in Hungary»

On hot days at the end of 1989, when the communist regimes collapsed across the whole of Eastern Europe one after another, General Electric (GE) decided on a major expansion in Hungary, purchasing 51 percent of Tungsram's shares for $ 150 million. This company, a manufacturer of lighting equipment, was considered one of the "pearls" of the Hungarian industry. GE has attracted Tungsram's low wages in Hungary and the opportunity to use this company to export lighting equipment to Western Europe. Like many other western companies, GE was convinced that the transformation of Hungary from a communist state, dominated by state ownership and a planned economic system, into a democratic, in political terms, country, where market economy prevail would create great and long-lasting business opportunities.

At that time, many observers were convinced that General Electric would show other Western companies how it would be necessary to transform enterprises run by communist party managers to capitalist, high-yielding companies. "General Electric" immediately dispatched *several of its talented managers to "Tungsram" and waited until a miracle would happen. But the miracle was delayed.*

As losses increased, General Electric began to realize what happens when the high expectations face the rigorous realities of the old culture of production: wastefulness, inefficiency, indifference to consumer needs and quality.

American managers complained about the laziness of the Hungarians, the Hungarians thought Americans were too intrusive. The aggressive management system of General Electric was used due to the developed system of communication between workers and managers; old communist system forbade such relationships, so the price of the habits proved to be an easy task for Tungsram. Americans considered it necessary to carry out aggressive marketing policies in order to attract the consumer, the Hungarians believed that "things speaks for themselves."

The Hungarians hoped that with the advent of General Electric their earnings would approach the western standards, while the American company attracted the opportunity to save on wages in Hungary.

Looking back into the past, General Electric managers admit that they were not ready for the Tungsram re-organization to take so long and cost so much. According to Charles Pipper, the American general manager of Tungsram, "Modernization of people has proven to be much more difficult than modernization of production."

Today, in General Electric, they are convinced that they managed to overcome the crisis. However, to achieve this, the company had to release half of the 20,000 Tungsram employees, including two-thirds of managers. In addition, it was necessary to invest another 440 *million dollars investments in a new plant, equipment, as well as retraining of the remaining workers and managers.*

In 1997, investments finally began to yield. Despite the release of half of the workers, production volumes doubled comparing to 1989. Although some large Eastern European consumers abandoned Tungsram products, this was not particularly important, because most of them were by inefficient state-owned enterprises.

***Source**: Gil, Charles V. L., International Business: Competition in the Global Market / VL Charles Gil / Per. from english A.Oliynyk, R. Tkachuk. - K.: The View of Solomy Pavlychko "Fundamentals", 2001. - P. 112-114*

2.3. Changes in culture and their impact on the practice of international business

Culture does not remain unchanged and continuously evolves. Economic progress and globalization are two important factors in cultural change. Economic progress is accompanied by a rejection of collectivism in favor of individualism (Japan). Globalization, on the one hand, leads to the unification of cultures, on the other hand, to the deepening of national cultural traditions (Islamic fundamentalism, ethnic conflicts in the territory of the former USSR, etc.).

One of the most serious dangers faced by firms that first enter the international market is that they may not have all the necessary information. Doing business in another culture requires adaptation to the values and norms adopted in this culture. For the development of cross-cultural literacy, international firms need to hire local employees from their foreign branches, create a staff of cosmopolitan managers and monitor the threat of ethnocentric behavior.

Ethnocentrism is an idea of the individual about the superiority of its ethnic group or culture over other groups or cultures.

The system of accepted values and norms in the country can affect the costs of doing business in a given country. Japan can serve as a good example of how culture can influence competitive advantage. The culture of modern Japan reduces the costs of doing business in this country comparing to spending in most Western countries. Japanese attach the importance for belonging to the group, loyalty, mutual responsibility, honesty and education contributes to increasing the competitiveness of Japanese companies (confidence appears between the company and suppliers, strengthens the ethics of workability and cooperation between management and workers "for the sake of the company", etc.).

Case 2.3.
«Wal-Mart international expansion»

Wal-Mart, the world's largest retailer, has built its success on daily low pricing strategies and on high-performing operations, logistics and information systems that give them opportunity to have minimal reserves and eliminate both deficits and surplus of merchandises in stores. The company employs over 2.1 million people, manages 4200 stores in the US *and 3600 stores in other countries and has a turnover of about $ 400 billion (in fiscal year 2008). Almost $ 91 billion out of this amount is received by sales in 15 foreign countries. Faced with the slowdown in sales growth in the US, Wal-Mart began to expand its foreign expansion in Mexico in the early 1990's. In this country Wal-Mart has created a joint venture with Cifra, the largest Mexican retailer, and has opened a number of supermarkets selling food products and a wide range products.*

Originally, Wal-Mart faced a number of unexpected problems in Mexico. It instantly discovered that people in this country have other buying habits. Most buyers preferred daily to buy fresh products from local stores, especially meat, tortillas and bread, just as Mexicans rarely had big refrigerators in their homes. Most consumers did not have cars and made purchases in small volumes unlike US consumers. Wal-Mart adapted its strategy to suit local conditions: hiring local managers who knew Mexican culture, opened a few relatively small shops where people could walk and began to offer more fresh produce. At the same time, the company was confident that it would be able to change the consumer culture in Mexico and re-educate consumers by demonstrating the benefits of the American shopping culture. Because once, that the managers thought, Americans also made purchases in small stores, but since the 1950s they began increasingly prefer large stores like Wal-Mart. As you create your own distribution in Mexico, Wal-Mart has been able to reduce its costs and share its benefits with Mexican consumers by reducing their prices.

Accounting for local requirements, perseverance and low prices have brought the desired results. Mexicans began to change their buying habits. Today Wal-Mart is the largest retailer in Mexico, and this country is considered an example of the company's most successful foreign expansion effort. Then Wal-Mart opened its stores in several developed countries, including Great Britain, Germany and South Korea. There, success has been less. In all three countries, Wal-Mart has faced strong local competitors that flawlessly adapted their offerings to local consumer habits. Moreover, consumers in these three countries are likely to prefer higher quality goods and not be tempted by Wal-Mart's low prices, as opposed to the US and Mexican consumers. After several years of loss-making work Wal-Mart ceased operations in Germany and South Korea in 2006. At the same time, it continued to look for commercial opportunities around the world, especially in those developing countries where there were no strong local competitors, where it was possible over time to change the culture of purchasing for its benefit and where its low-cost strategy is attractive.

The last time China was the focus of foreign efforts of the company. Wal-Mart opened its first store in China in 1996, but initially the expansion was slow and by 2006 the company had only 66 stores in that country. However, Wal-Mart found out that the Chinese like to hunt for profitable purchases and welcome the strategy of low prices and offering of a wide range of products. Indeed, from the point of view of its buying habits, Chinese middle class that has just appeared was more American than the European one. But Wal-Mart also found that in *order to succeed in China, it is needed to adapt its product and operational strategies to Chinese culture. One of the findings made by Wal-Mart was as follows: Chinese consumers insist that the food in the stores be fresh or even alive. Originally, Wal-Mart disappointed the Chinese with trying to sell them sleeping fish or meat packed in cellophane. Buyers did not want to buy what they thought to be an old commodity. That is why Wal-Mart began to display the bodies of recently killed animals, set up aquariums in which buyers personally had the opportunity to catch fish for dinner, sell live turtles used to make turtle soup. And sales began to grow rapidly.*

Wal-Mart also realized that it is necessary to work with trade unions to succeed in China. While in the United States, Wal-Mart was strongly resisted consolidation of workers into a union, it quickly realized that in China local trade unions did not take part in making of ollective bargaining. Instead, they represent the hand of the state, which provides funding for the party and (in terms of government) guarantees of the observance of social order. In mid-2006 Wal-Mart changed its long-lasting irreconcilable attitude towards trade unions and agreed to create trade union groups in its stores. Many people believe that it has created favorable conditions for Wal-Mart to buy share of the trading network Trust-Mart, which owns 101 hypermarkets in 34 cities in China. Wal-Mart recently informed that China is central part of its growth strategy. By the beginning of 2009, Wal-Mart had 234 stores in the country, despite the global recession, the company *announced its intention to continue to open new stores in China, without compromising the pace.*

***Source**: Hill Charles. International Business. [8th ed.] / Ch. Hill. - St. Petersburg: Peter, 2013. - P. 115-117.*

CONTROL QUESTIONS:

1. What is culture?
2. What is the difference between customs and moral conditions?
3. What the main determinants of culture do you know?
4. What kind of religious denomination, according to sociologists, has the greatest influence on economic development?
5. What are the main dimensions of the culture relative to the workplace selected by psychologist Gert Kh ofstede, working in IBM?
6. Culture, which country is characterized by strong rejection of uncertainty and high masculinity?
7. What is ethnocentrism?
8. How does economic progress change culture?
9. In your opinion, why does the international company McDonald's encounter cultural problems in different regions of the world?
10. How did Wal-Mart succeed in reaching the Chinese market?

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CHAPTER 3

INTERNATIONALIZATION OF BUSINESS AS A GLOBALIZATION BASIS

3.1. The essence and forms of internationalization

3.2. Integration of national economies into the world economy as a growth factor

3.3. Internationalization of economic relations and globalization of the world economy

Case 3.1.
«Martin`s Textiles»

The day of August 12, 1992 was really unsuccessful for John Martin. On that day, Canada, Mexico and the United States announced a fundamental agreement to sign the North American Free Trade Agreement. According to the plan, all tariffs between these three countries in the next 10-15 years should have been canceled, with the majority of them - for 5 years. Most of all, John worried about the point of the plan that all tariffs for tissue trade between the three countries should have been abolished within 10 years. In the framework of the planned agreement, Mexico and Canada, in addition, were allowed to carry certain batches of clothes and fabrics made from foreign materials to the United States each year, and this quota had to increase during the first 5 years of agreement. "O my God! - thought John. "Now I have to move my plants to Mexico."

John is the executive director of the New York Textile Company «Martin`s Textiles». This company, founded in 1910 by Jones's grandfather, was the family business of the Martins for four generations. Today, 1500 people work at three New York factories of the company, where cotton clothes, mainly linen, are made. All workers are members of the union, and the company has a long experience of negotiating with them. The company never encountered a labor conflict, and John, as well as his father, grandfather and great-grandfather, once considered the workforce as part of the "Martin family ."

John is proud not only by the fact that many workers are remembered by name, but also by the fact that he know about the personal life of numerous "skilled" workers.

Over the past 20 years, the company has experienced increased competition, both abroad and at home. Particularly difficult was the mid-1980s. The strength of the dollar on the international foreign exchange market during this period allowed Asian producers to open the US market with very cheap goods. Since then, although the dollar's positions have weaken relative to the leading currencies, this fact did not encourage Asian producers to raise prices. In a low-skilled, labor-intensive business, such as clothing, costs are driven by wage rates and labor productivity. It is not surprising that most of John's competitors in the northeast of the United States reacted to the sharp price competition by shifting production to the south, first to the states of South Carolina and Mississippi, where labor costs are much cheaper than in the northeast, but then - to Mexico, where the labor costs in the textile industry is less than $ 2 an hour. In contrast, salary rates at John's New York Plant are $ 12.5 an hour, while at textile factories in the south-eastern part of the US, where trade unions are unpopular, $ 8-10 per hour.

The next 3 years for Martin`s Textiles were extremely difficult. Each year, the company recorded minor losses, and John realized that things cannot go futher in such way. His main buyers, noting the quality of the company's products, however, warned that prices had risen too much and business relations might have to be stopped. John's permanent banker warned him of the need to reduce labor costs. John agreed to this, but the only safe way he knew was to move production to the *south, to Mexico. He never wanted this, but now there was no other choice. John worries that in 5 years the American market will be filled with cheap imports of Asian, American and Mexican companies that will produce their products in Mexico. All staff remaining in the US will consist of sellers.*

John thrilled his mind. Can the country benefit from the fact that displaces good and honest people from their jobs? Politicians say that it will positively affect trade, economic growth, will be beneficial for all three countries. John looked at these things differently. And what about Mary Morgan, who worked for John for 30 years? Now she is 54. How will she and the other same people find work? How about his moral obligations to his workers? But can we forget the fidelity that the workers demonstrated to his family for years? Will he pay for it in such way? How can he tell this news to his workers, many of whom have worked for the company for 10-20 years? And, in the end, the Mexican workers: will they be as loyal and hardworking as his present? From the leaders of other textile companies that put production in Mexico, he heard stories about low productivity, poor staff training, high staff turnover and frequent absenteeism. If it is true, then how is it to cope with these difficulties? John always felt that the success of Martin's Textiles was partially due to the family atmosphere that encouraged worker commitment, productivity and high quality of their work - an atmosphere that had been formed for four generations. How can he reproduce it in Mexico, among the group of foreign workers whose languages he does not even understand?

Source: *Hill, Charles W. L., International Business: Competition in the Global Market /W. L. Charles Hil / transl.*

from english A.Oliynyk, R. Tkachuk. - K.: Publishing house of Solomiia Pavlychko "Fundamentals", 2001. - P. 330-332.

Questions for discussion:

1. How would you do in place of John Martin? Which, in your opinion, is the most ethical act in this situation?

2. What economic benefits and profits have appeared in "Martin`s Textiles" from moving the production company to Mexico?

3. Is there an interdependence between economic and social costs and the benefits of moving production to Mexico?

Glossary:

Internationalization *- is a process of developing stable economic relations between countries (primarily on the basis of international division of labor) and beyond reproduction beyond the national economy.*

The internationalization of production is *the establishment of direct sustainable industrial relations between enterprises in different countries, making the manufacturing process in one country part of a worldwide process.*

Internationalization of economic life is *the convergence of economies of countries, which is manifested in the growth of industrial interdependence, increase in international trade, movement of capital and labor, mutual influence on the most important economic processes in the countries, including the dynamics of prices, interest rates and more.*

Internationalization of capital is *a process of interconnection and integration of national capitals, which is manifested both in the creation of objects by individual companies in other countries, and in the development of international forms of communication and contacts between the capitals of different countries.*

International economic integration is *a process of mutual adaptation and integration of national economies of two or more countries.*

International division of labor is *a direct continuation of the social division of labor within the country, it is the process of specialization of individual countries, associations, enterprises for the production of individual products or their parts with the cooperation of producers for joint production of final products.*

3.1. The essence and forms of internationalization

The economic form of the development of the international division of labor and the international socialization of production is ***internationalization.***

Internationalization is the process of developing stable economic relations between countries (primarily on the basis of the international division of labor) and the release of reproduction outside the national economy.

It is necessary to distinguish the notions of "internationalization of production", "internationalization of capital", "internationalization of economic life".

Internationalization of production is the establishment of direct stable industrial relations between enterprises of different countries, as a result of which the production process in one country becomes part of the process taking place on a global scale. It means nothing but the gradual output of production beyond the boundaries of an individual country and the x of its international forms within the framework of the world economy. Internationalization of production is an objective process that results from the deepening of the international division of labor and forms the basis for the development of all forms of international economic relations. Significant influence on it is made by the internationalization of capital.

Internationalization of capital is a process of interweaving and uniting national capital, which manifests itself both in the creation of individual companies of objects in other states, as well as in the development of international forms of communications and contacts between the capital of different countries. If the internationalization of production is the objective basis of the internationalization of capital, then in its turn the latter contributes to the deepening of the internationalization of production, leading to the intensification of economic ties between the countries. An important role in the process of internationalization of capital is played by the export 6.cvcvof capital, the migration of capital between industrialized countries, which has intensified since the late 50's of the twentieth century. One of the manifestations of this process is the emergence of transnational companies, the formation of international industrial, banking and other associations.

The internationalization of economic life is a rapprochement of the economies of the countries, which manifests itself in the growth of interdependence of production, the growth of international commodity turnover, the movement of capital and labor, the mutual influence on the most important economic processes in the countries, including the dynamics of prices, interest rates, etc. It is based on the deepening of the international division of labor and the internationalization of production, the internationalization of capital and the formation of transnational companies. The internationalization of economic life encompasses productive forces and industrial relations, manifested both in the production of and in the area of distribution, exchange and consumption.

Internationalization of economic life began in the days of great machine production and in it can be distinguished ***three main stages***:

In the first stage (approximately the end of the 18th - the end of the 19th century), the internationalization of production was based mainly on the interaction of national economies thanks to simple co-operation. The simplest form of international economic relations, primarily foreign trade was its manifestation. It is the internationalization of production and circulation that has become one of the main preconditions for the formation of the world economy.

At the second stage (the end of the nineteenth to the middle of the twentieth century), the internationalization of production goes into another stage, which is associated with the development of complex cooperation. A characteristic feature of complex cooperation lies in the fact that it is based on the international division of labor, which, in turn, becomes a determining factor in deepening the internationalization of economic life and the formation of a world economy. It is at this time that all main forms of the international division of labor are developing: the general (based on the specialization of the spheres of social production), the partial (on the subject specialization of individual branches), the unit (on the partial, on the operational specialization of separate production units).

At the third (modern) stage, which began in the middle of the twentieth century, internationalization becomes complex, that is, it covers all subsystems of the world economy, extends practically to all branches of manufacturing and nonproductive fields, to all countries of the world. Internationalization combines structural elements and subjects of the world economy into a single whole.

The narrowness of the domestic markets, the lack of resources: raw materials, fuel, means of production are offset by the broad participation of countries in world economic processes, based on the expansion and deepening of the internationalization of production and circulation. This is why it is one of the world economy's system-forming factors. With the deepening of the process of internationalization of production, the unity of the world economy increases and its organic integrity increases.

There are two levels of internationalization: micro and macro levels. At the micro level, internationalization represents the process of involving the firm in international operations, which is characterized by predominantly staged nature. *At the macro level*, it manifests itself in expanding and deepening global economic ties by increasing international mobility of factors and outputs.

Internationalization of production contributes to the growth of production efficiency in individual countries, the accelerated development of science and technology, and raising the standard of living of the population. The specialization of individual countries, which makes it possible to organize a mass production of products, to concentrate production in countries with the best conditions for this, contributes to the growth of labor productivity, saving time in a global scale. Internationalization leads to the worldwide expansion of science and technology gained in individual countries. At the same time, using in one form or another the latest achievements of science and technology becomes the objective necessity for most countries, as they are drawn into a competitive struggle in the world market. Intensifying all forms of international economic relations, internationalization leads to the establishment of closer links between countries, forms the world production organism, which underlies the functioning of world economy.

The internationalization of economic life enhances the interdependence of national reproductive processes on the world market. Thus, an increase of national income in one country in the conditions of internationalization of production and exchange contributes to the growth of imports of goods and services, which, in turn, increases the profits of the exporting country. Growth of income and imports in one country and, accordingly, profits in the other is a demand for imports in third countries. Consequently, a developed country can stimulate its domestic production and imports, which will increase exports of other countries, and, in general, will mean expansion of production and employment in the world. It is in this the essence of the so-called "theory of locomotive."

The effect of interdependence between the subjects of the world economy can be defined as the ratio between GDP growth in one country and economic growth in another. Thus, calculations on the basis of the economic model of the international communication of the Organization for Economic Cooperation and Development (OECD) have shown that, for example, an increase in US spending by 1% leads to an increase in domestic profits by 1.47%, in Germany - by 0.23% , Japan - 0,25%, Canada - 0,68%, in the OECD countries as a whole - 0,74%.

The internationalization of economic life creates a tendency to equalize the conditions of production in different countries, such as the level of production costs, productivity, profit rates, etc. However, the national economy is not dissolved in the international industrial unity. Significant socio-economic differences between countries persist.

It should be noted that the law of internationalization operates with varying intensity in those or other regions of the world economy. Presumably, it is currently the most intense in the regions of East and South-East Asia, which made a giant leap in its economic development, ahead of a number of highly developed countries in terms of the pace. For completeness of this law it is necessary to create, first of all, proper conditions: developed transport infrastructure, an extensive network of information communications, qualitative changes in the field of credit and currency, relevant legislation, stability in the field of national, social, political relations, etc.

The new modern stage of internationalization is generated by the scientific and technological revolution. The development of the latter and its consequences have a number of features of universal character and involve international efforts, because:

• Modern updating of science, engineering and technology is so extensive, comprehensive and deep that it is impossible to carry it out with the forces of only one, even a great state;

• it becomes necessary and economically justifiable to deploy production, bearing in mind a number of countries, and often potential consumers around the world;

• it was possible to rapidly spread the achievements of the technological revolution in all regions of the globe, and increased the mobility of capital and labor. Established in one country, the latest engineering and technology are rapidly spreading around the world.

The term "internationalization of economic life" means the participation of countries in the world economy, and therefore, a number of indicators are used to determine its level.

The main ones are: export quota, import quota, foreign trade quota, export value per capita, the volume of accumulated foreign investments in the country in relation to its GDP, the share of foreign capital in annual investments of the countries, etc. Thus, according to the World Bank, in the second half of the 1990s, the foreign trade quota (the ratio of the amount of export and import of the country to its GDP) was in the United States - 24%, France - 45%, South Korea - 67%, Canada - 76% , Belgium - 137%, that is, it correlates with the size of the domestic market.

One of the most important features of the internationalization of economic life is the **international division of labor** (hereinafter referred to as **IDL**). IDL is a direct extension of the public division of labor within the country, a process of specialization of individual countries, associations, enterprises in the production of certain products or parts thereof, with the co-operation of producers for the joint production of finished products.

IDL develops in two directions: production and territorial. In turn, the production direction is divided into *vertical* (various manufacturers form a linear technological chain and perform a series of successive technological operations) and *horizontal* (manufactured by individual producers of components, from which the product is then collected technically or technologically). In the territorial aspect, IDL envisages the specialization of individual countries in the production of individual products or parts of them for the world market. Historically, IDL arose as a system, the main structural unit of which were national economies and world economic relations were confined to international trade.

The further development of IDL leads to the global market growth in the global economy. The dual structure of the world economy is formed: on the one hand, it is a system of interconnected national economies, and on the other hand, transnational corporations (TNCs). TNCs have now become the main link in the system of world economic relations. TNCs are multinational corporations that have concentrated in their hands the production and marketing of products on the world market.

Today, this structure of the world economy is seen fairly persistent:

- world markets for goods and services;
- world capital markets;
- world labor markets;
- the international monetary system;
- international financial and credit system.

In addition, internationalization is intensively developing in the fields of information, research and design (engineering, consulting). Forming uniform scientific and information projects.

The main motive for the development of world economic relations is the desire of their participants to obtain economic benefits from participation in IDL. Even mercantilists believed that international trade was a source of wealth. A. Smith and D. Ricardo developed the theory of comparative costs. The law of D. Ricardo states: the country must specialize in the production of a certain product and export it if the distance between the cost of producing this product and the higher costs of producing other goods is greater than in other countries. This theory was extended in the twentieth century by Swedish scientists E. Heckscher and B. Ohlin and the American scientist M. Porter.

International trade is carried out in the form of export (export of goods for sale on the world market) and import (import of goods to the country). On the basis of world prices, which form the sales of goods on the world market, the value of exports and the value of imports are formed. The amount of export and import of goods form the *country's trade turnover*. This is one of the main indicators of the country's inclusion in world trade. The difference between the value of exports and imports forms the *trade balance of the country*. If the value of exports exceeds the value of import, then the trade balance is active, if on the contrary - passive. In a passive trade balance, the country is forced to pay a significant amount of currency, and with active - to receive it. Therefore, each country is trying to increase the competitiveness of its goods, to expand exports, and, if possible, to restrain imports of goods.

In parallel with the internationalization of processes at the micro level, the internationalization of macroeconomic processes is manifested in international economic integration.

3.2. Integration of national economies into the world economy as a growth factor

Integration means strong interconnection, interconnection of national economies and the formation of a common economic space. It means the free movement between states of capital, goods, labor, other resources, their use on the basis of mutually agreed economic and legal standards.

International economic integration is a process of mutual adaptation and unification of national economies of two or more countries.

Characteristic features of integration:

- international regulation of economic processes;
- gradual formation on the site of separate national economic complexes of a certain regional interstate economic complex;
- expansion of possibilities of interstate movement of goods, labor, financial resources within the area;
- convergence of internal economic conditions of participants of integration unions, equalization (of their economic development).

There are the following types of integration associations:

- ***free trade zone*** (participants are limited to abolishing customs restrictions in mutual trade);

- *customs union* - the free movement of goods and services inside of the union is supplemented by a single customs tariff for third countries);

- ***common market*** - eliminates all barriers between countries not only for the movement of goods, but also labor and capital;

- *economic union* - includes a common market (implementation of a single economic policy);

- *political alliance* - is the logical culmination of the attempts to achieve ever-closer economic integration by delegating a number of powers of the governments of the participating countries to supranational regional governments.

In the wide sense, international economic integration is defined both as a relationship and as a process. Integration in the first sense can be interpreted as the absence of any form of discrimination of foreign partners in each of the national economies. In this regard, international economic integration is seen as the highest development of international economic relations. As a process, integration is manifested in the erosion of the differences between economic actors - representatives of different states

At the micro level there is a horizontal and vertical integration. *Horizontal integration* arises in the merger of firms that produce similar or homogeneous goods for the purpose of their further implementation through a common system of distribution and obtaining additional profits, and is accompanied by the production abroad of goods similar to those produced in the country of the base.

Vertical integration involves the unification of firms that operate in different production cycles. *There are three forms of vertical integration:*

integration "down" (for example, joining a plant - the manufacturer of raw materials or semi-finished products to the company that conducts the main production);

industrial integration "up" (for example, the acquisition of a steelmaking company producing metal constructions);

non-productive integration "up", which includes the scope of distribution.

At a certain level of development of microintegration there are transnational corporations. They are the most integrated microstructures. At the level of national economies, integration is developing on the basis of the formation of economic unions of countries with a degree of harmonization of their national policies. Here we are talking about the phenomenon of economic regionalism.

Consequently, as mentioned above, we have a two-tier structure of the integration process - at the micro and macro levels. The following forms of international regional economic integration are considered theoretically substantiated and practically tested: preferential trade zone, free trade area, customs union, common market, economic and political alliances.

Preferential trade zone is a zone with preferential trade regime, when two or more countries reduce mutual tariffs for import of goods while maintaining the level of tariffs in trade with other countries. The most illustrative historical example of such integration is the preferential system of the British community, which united 48 states.

Free trade zones have a special preferential trade regime for participating countries by eliminating domestic tariffs when they are maintained in trade with other countries. Typical examples are the European Free Trade Association, the Free Trade Area "USA - Canada", the North American Free Trade Agreement (NAFTA).

Customs union is an agreement between two or more states, which stipulates eliminating domestic tariffs and establishing a common external tariff. Such agreements have operated in Benelux, the European Union.

In the *economic union*, the free movement of factors and production results is complemented by the harmonization of domestic and foreign policy (European Union).

Examples of the *political union* can be the United States of America and the former Soviet Union.

It should be noted that in the formation of zones of preferential and free trade, customs unions, interstate relations relate only to the sphere of exchange, that is, trade integration is developing. Deeper forms of interstate integration create conditions for *industrial integration*. The levels, forms and pace of international economic integration are closely interconnected.

The development of processes of international economic integration is due to the following factors:

- economic development of countries, groups of countries and regions of the world in conditions of uneven distribution of resources;
- laws of scientific and technological progress;
- trends in demographic development;
- availability and necessity of solving global problems (energy, food, ecological, use of the world ocean and space, economic growth and population growth, economic security, disarmament);

- a sharp reduction of distances through the development of transport and communication networks;
- market "unification" of economic development.

In general, the consistent development of forms of international economic integration provides the most complete, most rational use of the economic potential of countries and an increase in the pace of their development.

At the same time important questions of social policy are solved at the expense of objectively caused decrease of prices for basic goods and services and creation of new workplaces and due to concentration of the participating countries on priority programs of social and economic development.

We also note that mature integration groups produce and implement powerful and effective mechanisms, tools for providing collective economic security.

However, despite the obvious economic benefits, processes of international economic integration take place against the backdrop of complex interweaving of socio-economic and political problems.

The main factors that cause the emergence and existence of these problems are:

- nationalism, traditional conflicts between individual countries and groups of countries, ideological differences;
- political, legal, economic and socio-cultural differences of the participating countries; increase in costs when implementing regulatory functions at supranational level; contradictions associated with the expansion of integrational groups, etc.

The effectiveness of international economic integration is achieved through the following factors:

- Elimination of discrimination and barriers between the member countries of integration groups in the movement of goods, services, capital, labor and entrepreneurship;
- standardization and unification in the production and commercial sphere;
- the effect of expanding the market and economies of scale of production;
- ensuring a sufficient level of competition.

<u>CASE 3.2.</u>
«Consolidation in the European insurance market»

From 1996 to 1998, the insurance industry of the European Union has experienced a period of merger between different companies. These mergers were the result of a process that began on January 1, 1993, when the Single European Act became the norm for all member states of the European Union. The goal of the Single European Act was to lift barriers to international trade and investment within the EU, and thus to create a single market in place of a set of individual national markets.

As stated in this law, the insurance industry of the countries of the European Union in mid-1994 was unregulated and liberalized. By that time, the conditions of competition, regulatory measures and prices differed *significantly in different national insurance markets. For example, in early 1994, a simple life insurance policy of 10 years in Portugal cost three times more than a similar policy in France, while motor insurance for an inexperienced driver in Ireland cost twice as much as in Italy, and four times more expensive than in Britain. The new rules introduced two significant changes. First, they enabled real international trade, allowing insurance companies to sell their services in any EU country based on the regulatory norms of their countries, that is, to provide a so-called "single license". Secondly, insurers from different EU countries were able to set their own tariffs for all types of insurance policies. They no longer needed to approve the text of policies from local officials, and this abolished the highly regulative regime, which concealed a significant amount of services in the industry. Among the expected results of such changes were the intensification of competition and lower prices.*

By mid-1997, it seemed that moving towards a single EU market would give a tangible impetus to the future introduction of a single currency, the euro, in most of the EU member states. The first stage of adopting a single currency took place on January 1, 1999, when 11 EU member states were isolated in their own exchange rates and began to shift responsibility for monetary policy to the newly created European Central Bank. The second stage took place on January 1, 2002, when the currencies of the participating countries were officially canceled and displaced by a single currency, the euro. The appearance of the euro greatly facilitated the task of consumers to compare insurance services offered by companies from different EU countries. It had to sharpen competition and lower prices.

The initial response to these changes in the competitive environment was unclear. However, by mid-1996, insurance companies began to realize the need for their own repositioning for more effective competition in a single market where a single currency dominates. This awareness has led to a number of mergers within the countries of different companies, which sought to save at the expense of the scale required for competition in the large-scale European market. In 1996, two French insurance companies, "Aha" and "UAP", merged to form the largest insurance company in Europe. Under this agreement, Aha has gained control over several subsidiaries that acquired UAP in Germany in 1994, allowing Aha to expand its presence on this important market. In 1996, two major insurance companies in Britain, "Royal Insurance" and "San Alliance", united their efforts.

Consequently, in 1997 and early 1998, a number of international mergers took place, the most important of which was the unification of the German "Allianz" and "AGF" of a large French insurance company. The merger of Allianz and AGF was dictated by the AGF bidding launched by the large Italian insurance company Generali. The latter wanted to buy "AGF" to expand its presence in France. Bid triggered the action of Allianz, which dominated the German insurance market, partly due to the merger of Munich's Hamburg-Mannheimer with the British Victoria insurance, and partly to a stronger alliance of the Acha combination - UAP. Demonstrating awareness of the feelings of the French, whom the Generali did not know, Allianz promised that the AGF leadership would remain French and that representatives of Allianz would have a minority vote in the council of the merged company. Not wanting to do *such things, Generali eventually refused to bid for AGF, but not before it made significant concessions from Allianz and AGF. In return for bid refusal, the German and French companies agreed to sell several key divisions of the Italian insurance company, which increased the amount of Generali insurance premiums by more than half, and provided it with a strong presence in Germany and Italy.*

As a result, the structure of insurance services in the EU countries has undergone significant changes by mid-1998. Allianz emerged as the largest pan-European insurance company with total revenue of $ 64 billion. In addition to its leading position in Germany, Allianz is one of the top five insurance companies in Belgium, Spain and France. Aha - UAP became the second largest insurance company in Europe with significant activity in France and Germany, while Italy's Generali with $ 31 billion in revenue. It was now the third largest European insurance company.

Source: *Hill, Charles W. L., International Business: Competition in the Global Market /W. L. Charles Hill / Trans. from English. A. Oliynyk, R. Tkachuk. - K .: Publishing house of Solomiya Pavlicko "Fundamentals", 2001. - P. 300-302.*

3.3. Internationalization of economic relations and globalization of the world economy

International division of labor, which is reflected in the specialization of countries in the production of certain types of goods, leads to the internationalization of world economic life. The very integration that takes place in the world economy can be defined as follows:

integration - close economic cooperation between different countries in a single or closely related production process taking place in the world economy.

The basis for the establishment and development of international economic integration is the international division of labor. At first it was due to differences between countries in the natural and climatic conditions. Originating from ancient times, this division of labor has long existed in the form of simple international cooperation, and the form of its manifestation was international trade. It is through this simplest form of organization of international economic relations, this division of labor contributed to reducing the cost of producing certain products and expanding their supply. But if, to the great geographical discoveries, this division of labor, and, accordingly, the cooperation of individual countries, were more episodic, then after them they become stable. A clear confirmation of this was the development of trade between India and European countries. Europe went to spices, tea and other exotic goods, and in India, mainly from England, - products of industrial production and, in particular, fabrics. But if from the point of view of the general progress of mankind this was undoubtedly positive, because the possibilities of meeting the needs of man, increasing productivity, etc., were expanded, from the point of view of the individual concrete consequences, there was a lot of negative. The latter is connected with the unequal exchange between the colonies and metropolises, and with the terrible consequences of the massive penetration of already manufactured machinery into countries with traditional economic life. Thus, in the very same India, cheap fabrics from England led to the fact that the plains of this country, according to Marx's figurative statement, whitened with the bones of Indian weavers.

A new stage in the development of the international division of labor dates from the late nineteenth century. It is due to the new state of the economy, above all, highly developed countries. The emergence of monopolies radically changes the situation. Exit of capital, which happened occasionally before, is gaining momentum. The division of labor is substantially increased and goes from specialization in certain spheres of production to the subject, and subsequently to the operational specialization. On the basis of this new stage of development of the social division of labor, close interconnections between countries are formed, which are manifested in the formation of industrial cooperation.

This stage in the development of the world economy is characterized by an enhanced positive impact of international economic cooperation on the development of productive forces in many countries. Monopolistic capital brings with it new technologies, a new organization of production, increases productivity. In countries where capital is diverted, skilled labor and national capital begin to emerge.

But under conditions of domination of monopolies and colonial or semi-colonial dependence of large territories and entire continents, such as Australia, this stage of development of the world economy leads to the growing contradictory nature of international economic relations. This is manifested in the fact that the gap between dependent countries and territories, on the one hand, and the leading capitalist states on the other, is increasing. The former are increasingly specialized in mining certain minerals, and most of the finished products, especially industrial production, are procured in developed countries. This puts them in a tight dependence on the world market situation. An unequal exchange, backed by the economic and military forces of the leading countries that fully protect their monopolies, is sharply increasing. And this separates the entire world economy into two opposite poles. On one of them, in a relatively small number of states, the level and quality of life will increase, while on the other, on the contrary, there is a decline, diseases and hunger are raging.

The third stage in the development of the world economy begins from the middle of the twentieth century and is connected, above all, with the further development of productive forces. The scientific and technological revolution has raised the productive forces to such an extent that the boundaries of the national economy have become obstinate. The scale of production increased, which required not only the expansion of the market, but also acutely posed a problem of resources. At the same time, competition between monopolies intensified, and it already demanded a reduction in production costs. The latter led to the transfer of production to the "Third World" countries with cheap labor and proximity to resources. At the same time, multinational corporations that have a widespread network of their productions around the world and, due to their adaptability to the peculiarities of national markets, can optimize the implementation of their products and obtain extra profits.

The emergence of transnational corporations falls in the twentieth century, but their number has increased particularly rapidly in its last decades. So, if in the 80 years of the last century in the world there were about 11 thousand TNCs, then in the late 90's already almost 53 thousand. These companies turned into supermodel, susceptible to the scientific and technological revolution and, in fact, the main structural elements of the world economy. They concentrate their attention not so much on the organization of trade in goods, but on their production in those countries where the market for these products is the most capacious. Today, multinational companies have become an extremely powerful external factor, without taking into account the impact that a country's national economy can not properly build and implement economic policy.

The generalization of the third stage in the development of the world economy has become the internationalization of production. Gradually, all countries, whether they want it or not, are drawn into the system of a single world economy. This is an objective process of socializing production, but already on a planetary scale.

The peculiarity of the current stage of integration is that underdeveloped countries are gradually modernizing their economies and improving their structure. The fact is that monopoly capital is not beneficial to the continuous backwardness of countries where they place their production. It affects the quality of production of their products, which, in turn, leads to a reduction in profits.

In general, the contradictions inherent to the system of international economic relations are preserved. First of all, this is the contradiction between highly developed and underdeveloped countries. The latter, often in the presence of a sufficiently rich raw material base, are left to the brink of progress and have great problems. According to the UN, today more than 1.5 billion people of the planet do not have elementary medical care. In many countries of the "third world" there is not enough drinking water, and often food. The progress that brings with it the development of the world economy, of course, is, but it costs very much to mankind.

The internationalization of the world economy means not only a certain interweaving of production from different countries. It manifests itself in the implementation of a coherent policy, in joint forecasting and planning. The world economy moves to a certain integrity, which, in turn, requires a clear organization of action in the production and non-productive sectors.

The internationalization of the world economy at the high level of its development leads to integrated economic unions. They arise in the second half of the twentieth century. as regional associations of countries that provide deep economic ties between their national economies. Within these associations, there are uniform, often preferential, conditions for the movement of goods, capital, labor force. As a rule, such associations are established by the relevant normative acts and within the limits of the association joint control bodies and other institutions are formed. The most common element of such associations is the creation of a free trade area. An example of regional associations of this type was the European Free Trade Association established on the initiative of the United Kingdom in 1960. It included several dozen countries of the British Commonwealth. A similar trade union in the form of a free trade zone was created in 1988 by the largest countries of the North American continent - the United States and Canada.

With the development of integration processes, higher-level integration economic associations began to emerge. Unlike free trade zones and customs unions, they are characterized by the free movement of not only goods but also capital and labor. Such integration associations are supplemented by currency unions that are characterized by close cooperation and even the introduction of a single currency. An important role is played by joint supranational authorities.

The most powerful regional integration association was the European Union. It began to form after the Second World War on the initiative of Germany, France, Italy and the Benelux countries. This association has gone a long way, from the simplest forms of integration in the form of a free trade area to an economic union with its own supranational political organs. Today, the European Union unites 28 European countries. This is a super-powerful economic group with a tremendous potential. In this association since 2002 there is a common currency, which has already been introduced by 16 countries. A new agreement on the political structure of the EU was developed and ratified at the end of 2009, the president was elected and new ways of making joint decisions were developed. In the long run, there will be unified tax legislation, the organization and operation of transport and communications, etc.

The European Union, with its powerful and real transition to the ever closer integration of countries, has led to large-scale positive changes in the national economy of each EU Member State. Production costs have declined significantly. The already high quality of goods produced within the EU has grown. This is greatly facilitated by the standardization and certification of products. Significantly increased productivity. Only thanks to the introduction of a single currency, countries that entered the zone of Euro, according to expert estimates, were able to increase their GDP from 1 to 1.5%. The European Union has reached the level of the

United States for a range of macroeconomic indicators (population, GDP, share in global trade, etc.) and exceeded US figures by some of these indicators.

A powerful intergovernmental economic integration association also became the free trade area, formed by the United States and Canada, which, after joining them in 1994, Mexico received the abbreviated name of NAFTA. True, in comparison with the EU, this integration association is not the same in terms of the depth of integration as the European Union.

Noting the positive features of such associations, it should be noted that these processes also have certain contradictions. So, within the countries that are part of such associations, for example, in the same European Union, there is a problem of different approaches to the development of agriculture in each individual country. There is some resistance (especially from relatively small countries, such as Denmark, Ireland and some others), the loss of their own sovereignty and, in part, national identity in connection with the strengthening of political integration, which manifests itself in the growing role of supranational bodies. Along with these contradictions, which can be conventionally called internal, there are contradictions between this group and other states of the world. It is clear that, advocating for their own economic interests, the EU member states can (and carry out), in relation to other non-EU countries, policies that may significantly affect the interests of the latter. At the same time, the possibility of joining this integration association for many European countries, for example, for Ukraine, is rather obscure. Although for the sake of justice, it should be noted that this opportunity depends very much on our state and on the reality of those reforms that we must carry out in the economic, social and political spheres of life. A certain aspect of external contradictions is the fact that with the strengthening of such associations the competition between the main centers of attraction, such as the EU, the USA, Japan, and in the last decade, also increases, is also increasing with China.

Along with the integration of highly developed countries, the process of regional integration of underdeveloped countries takes place. Unlike the first, such integration is aimed not at the achievement of the powerful development of productive forces, but on the unification of efforts to create real conditions for overcoming economic backwardness, the joint resolution of the most pressing social problems and the confrontation between the dictates of the highly developed countries. Examples of such associations can be the Latin American Integration Association on the American continent, which arose on the basis of the Latin American Free Trade Association (LAFTA), the Central American Common Market (CACM), created in 1960, on the African continent. Similar associations also arise in Asia. The most famous are the Association of Southeast Asian Nations (ASEAN).

Regional integration associations in the most complete form realize the worldwide tendency to socialize the world economy. But they are territorially limited and in this they have a certain local character. Along with this, such a trend of global socialization of production is also manifested in the formation of associations, in fact, on a global scale. Such organizations include, for example, the World Trade Organization (WTO), which includes about 200 countries, whose member in 2008 was Ukraine. These organizations are strengthening their role and are becoming increasingly influential in the global economy. And the latter is more and more clearly gaining signs of integrity and unity, and is becoming more and more confident in a single world market where goods, services, capital, labor, knowledge and information from many countries are sold. Interconnections and interaction of national economies are intensifying and forming a united world economy. ***Its modern features were:***

- rapid spread of the scientific and technological revolution, which in the process of its development and implementation can no longer be limited to the national boundaries of even large countries. The renewal of production, the constant progress of technology and technology become possible only under conditions of cooperation of all countries of the world;

Reducing costs, rational use of resources, organization of production, which would cause minimal damage to the environment, require constant and close interaction of all countries;

- the scarcity of resources requires, at the planetary scale, to gradually remove the last obstacles to the free movement of not only goods but also capital and labor;
- production in individual countries, taking into account the maximum possible efficiency and application of the latest advances in science and technology, often focuses not only on the national but also on the international world market.

All these peculiarities must be taken into account by each country in order to find a worthy place in the general, objective process of forming a united world economy and not to stay on the sidelines of the main path of development of human civilization.

Case 3.3.
«Influence of NAFTA on textiles US industry»

When the North American Free Trade Agreement came into force in 1994, many peaple feared that the US textile industry would lose a lot of jobs owing to the transfer of production from the United States to Mexico. Opponents of NAFTA are persistent, but unsuccessfully argued, the ineffectiveness of signing the deal because of its negative impact on employment in the United States, especially in areas such as textiles.

Looking back, four years after the signing of NAFTA, we see that the critics obviously were right. From 1994 to mid-1997, about 149,000 US workers lost their jobs, accounting for more than 15% of all employed in the textile industry. This loss was largely attributable to the movement of production to Mexico. From 1994 to 1997, exports of fabrics from Mexico to the United States tripled and reached $ 3.3 billion. In 1993, the American company - manufacturer of jeans "Guess" produced 95% of its products at home. Now it receives about 60% of fabrics from outside the United States, and one of Mexico's largest suppliers. Similarly, Fruit of the Loom Inc, the largest manufacturer of linen in the United States in 1995, promised to close 6 of its domestic factories and reduce the volume of operations to the other two, freeing about 3200 workers, or 12% of the American workforce. The company announced that the closure of *factories was part of its plans to move production to cheaper foreign plants, particularly in Mexico.*

Until the closure of plants, less than 30% of the total sewing was carried out outside the United States. However, "Fruit of the Loom Inc" was planning to move most of the work to Mexico.

Having carefully studied all the information, we see that the problem is complicated. As a matter of fact, jobs in the US textile industry have been decreasing, but clothing prices in the United States since 1994 have been declining as fabric production has shifted from high-cost American to low-cost Mexican manufacturers. Obviously, US consumers who now could spend more on other goods have obviously benefited from this. For example, the price for a typical pair of fashion jeans fell from $ 55. in 1994 up to 48 dollars in 1997. Such a fall in prices was not a mere consequence of the movement of production from the United States to Mexico. NAFTA has also led to the transfer of production from Asia to Mexico. In 1980, 83% of all American imports of fabrics came from Asia. By 1997, Asian manufacturers accounted for 41% of the volume of American textile imports, as companies moved their production from Asia to Mexico. An example of such a trend is the clothing retailer The Limitted Corporation Inc., which in 1997 moved its fabrics from Sri Lanka to Mexico. According to the representative of "The Limitted" salary in Mexico is three times higher than the monthly $ 60 that the workers receive in Sri Lanka. Combining production in Mexico and the United States is faster and more profitable than with Sri Lanka. There are no import tariffs from Mexico under the NAFTA, but a 19% tariff applies to imports of fabrics from Sri Lanka. Taking into account all these factors, fabric production in Mexico is cheaper than in Sri Lanka. Consequently, as a *result of the conclusion of NAFTA, production has shifted to an independent source at a lower cost. The Limitted plans to shift its savings to US consumers in the form of lower prices.*

In addition to lower prices, moving fabrics to Mexico has given the US economy some other benefits. Firstly, it contributed to the jump in exports of American fabric manufacturers and those many of which operate in the chemical industry. By signing NAFTA, American manufacturers such as Burlington Inustrie and E.I.D Inc. have provided insignificant volumes of fabrics and yarn to Mexican manufacturers. Now, since the production of clothing has shifted from Asia to Mexico, the export of fabrics and yarn to this country has increased significantly. American manufacturers supply raw materials to Mexican garment factories. From 1994 to 1997, the volume of exports of fabrics and yarn to Mexico, mostly in the form of ready for stitching, almost doubled and amounted to 2.5 billion dollars annually. In addition, American textile manufacturers have increased their sales, as garment factories in Mexico order this kind of equipment. Export of textile machines to Mexico in 1995 in comparison with the previous year almost doubled and amounted to 35.5 million dollars.

Although the US textile industry has cut many jobs, NAFTA supporters claim that the US economy has gained a net gain in the form of lower clothing prices and an increase in exports of fabrics and yarn producers as well as textile machinery manufacturers. Thanks to the NAFTA signing, trade was formed. Gains of trade have been achived by American consumers and producers in certain sectors. As always, someone from the free trade zone wins, and someone loses, however, because of the *convictions of supporters of this idea, profits are clearly higher than losses.*

Source: *Hill, Charles W. L., International Business: Competition in the Global Market / V. L. Charles Hil / Transl. from english A.Oliynyk, R. Tkachuk. - K.: Publishing house of Solomia Pavlychko "Fundamentals", 2001. - P. 308-309.*

CONTROL QUESTIONS:

1. What is the process of internationalization?
2. What is the difference between internationalization of production and internationalization of capital?
3. What are the levels of internationalization known to you? Describe them.
4. What do you know about the development of the international division of labor?
5. What is International Economic Integration?
6. What do you know about the most developed integration group in the world? Justify the answer.
7. How do you think the process of regional economic integration affects the development of international business?
8. What is the connection between the internationalization of economic relations and the globalization of the world economy?
9. How do you assess the economic implications for American textile business in the aftermath of NAFTA?
10. What European insurance companies have benefited from economic benefits as a result of the entry into force of the Single European Act on January 1, 1993?

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CHAPTER 4

MULTINATIONAL COMPANIES AS A KEY FORM OF INTERNATIONAL BUSINESS FUNCTIONING

4.1. Economic nature of multinational corporations

4.2. Goals of multinational corporations

4.3. Modern transformations of development of transnational enterprises

Case 4.1.
«Globalization and General Electric»

Founded by Thomas Edison, General Electric is now the largest industrial conglomerate in America and produces a wide range of products and services: from medical devices, power generators, jet engines and home appliances to financial services - television broadcasting (GE owns NBC, one of the top three US channels). This giant company, with almost $ 180 billion in revenue, is well versed in international business. GE has been manufacturing and selling overseas for decades. When the legendary Jack Welch was the CEO of the company, GE's main goal was to be No 1 or No 2 globally in every type of business it was engaged in. To achieve this, Welch has chosen an aggressive foreign direct investment strategy. GE took advantage of Europe's economic weakness from 1989 to 1995 to invest $ 17.5 billion in the region, half of which was used to acquire 50 companies. When the Mexican peso became sharply depreciated in 1995, GE took advantage of the uncertainty surrounding the acquisition of companies throughout Latin America. And when the economic crisis in Asia, triggered by panic in the Asian currency markets, began in 1997-1998, Welch urged its managers to consider this situation as a favorable opportunity for acquisition of other firms. In Japan alone, GE spent $ 15 billion on these goals in 6 months. As a result, by the end of the Welch era in 2001, GE was *generating more than 40% of its revenues through international sales, though in 1985 their share was only 20%.*

However, in the Welch era GE has largely remained an American company doing business abroad. But under the leadership of his successor, Geoffrey Immelt, GE is apparently about to become a truly global company. First of all, foreign revenues continue to grow faster than domestic revenues, and in 2007 their share was more than 50% of total revenues. This expansion is fueled by the rapid growth of the economies of Asia, especially India and China. GE now sells more engines for wide-body aircraft to India than the United States, and is reaping the benefits of infrastructure investments made by China, actively building airports, railways and power plants. According to analysts, after 2012 GE will operate from 55 to 60% of its business in international markets.

With this shift in focus, Immelt tried to change the organization and methods of operation of the company. Until recently, all of GE's major divisions were headquartered in the United States and were tightly controlled from the center. But in 2004, GE relocated the headquarters of the medical equipment division to London, the hometown of Amersham company, which was recently acquired by GE. GE then moved its headquarters that sells equipment to oil and gas companies in Florence, Italy.

And in 2008, GE moved GEMopeu's headquarters to London. Moreover, it has given more authority to its managers who are responsible for work in other countries. For what? The company is convinced that it must be closer to its customers for international success. For *example, GEMopeu's move to London was driven by a desire to be closer to its customers in Europe and Asia. GEHealthCare London executives find it easier to get anywhere in the world.*

GE also relocated its research activities abroad. Since 2004, it has opened its own research centers in Munich (Germany), Shanghai (China) and Bangalore (India). The expectation here was that opening such centers in fast-growing economies would allow GE to develop equipment better suited to local needs. For example, GenealthCare produces Magnetic Resonance imaging Scanners, each worth $ 1.5 million, but a scanner that will cost $ 500,000 and is likely to sell well in developing countries is designed in the Shanghai Research Center.

In addition, GE is rapidly developing an international top management structure. Initially, the company traditionally preferred to hire managers from Midwest because of their strong commitment to American work ethic, but now, in the higher corridors of power, it is increasingly possible to hear a foreign-accented language. Managers responsible for the work of the company in individual countries in the past were often American expatriates, but now they usually come from the regions in which they work. GE has found that local national managers make it easier to sell to local businesses and governments. For example, in China, the state is a big buyer, and working closely with the state bureaucracy requires a special understanding of local culture that is difficult to reach for foreigners. In addition to the internationalization of its management staff, GE often sends US managers abroad to further develop *management skills and participate in special company events. In 2008, as a symbolic gesture of GE Transportation, headquartered in Pennsylvania, held an annual meeting of its sales representatives in Sorrento, Italy, not as usual in Florida. "It helped Americans find out what the flight delays are," said one of the unit's heads.*

Source: *Hill C. International Business. [8th ed.] / C. Hill. - St. Petersburg: Peter, 2013. - P. 66-68.*

Glossary:

Multinational corporations (MNCs) *are international corporations that unite national companies of a number of countries on a production and scientific and technical basis.*

A transnational enterprise *is a business enterprise operating in two or more countries.*

4.1. Economic nature of multinational corporations

One of the main trends that characterize the world economy at the present stage of development is its globalization. At the same time, firstly, the interstate and intercompany competitive struggle for economic resources and markets increases, and secondly, there is a gradual development of interstate alliances of related countries, which are created in order to achieve global advantages over global competitors in the world market

(EU, NAFTA, ASEAN, etc.). Integration processes at the regional, interstate level are gradually reducing the importance of individual national economies. On the other hand, globalization has given rise to new strategic approaches in many areas.

At the same time, a strong impetus for development is gaining integration at the company level: the increasing level of international competition is forcing companies to look for ways to combine potentials and co-operation in the fight for survival or market leadership. Establishing business partnerships between companies in different countries and creating business structures of varying degrees of integration is one of the most common organizational strategies in recent decades.

Working together, firms are increasingly forming strategic alliances. Since the mid-1980s their number in the world has increased annually by more than 25%, 6% of all profits generated by the 1,000 largest US corporations, which are attributable to alliances, that is 4 times higher than in 1987.

The current level of development of the world economy is characterized by the internationalization of the economy, and to a large extent at the micro level, i.e. at the level of enterprises. The volume of foreign operations of firms, and above all their foreign direct investment, is expanding. By the end of the 1990s, there were more than 42,000 multinational enterprises operating in the world, with approximately 300,000 units located in most countries of the world.

Multinational corporations (hereinafter referred to as MNCs) are international corporations bringing together national companies of a number of countries on a production and scientific and technical basis. An example of such a company is the Anglo-Dutch concern

Royal Dutch Shell, which has existed since 1907. The current capital of this company is divided in the proportion of 60:40. Another example of a multinational corporation is the widely known in Europe, the Swiss-Swedish company ABB (Asea Brown Boyery), which specializes in mechanical engineering, electronic engineering. ABB has several joint ventures in the CIS countries. Leading multinational corporations in Europe also include the Anglo-Dutch chemical and technological concern "Unilever".

David E. Lilienthal defines multinational corporations (MNCs) as "corporations that are national in equity but international in their scope of operations abroad in accordance with local laws and regulations."

A somewhat different definition, based on the overall performance of the company, is given by Yair Akharoni: "A company is called multinational if it operates in more than one country and in volumes" that are expanding.

Finally, according to Peter Drucker, who adheres to a behavioral approach, a US-based company may be called multinational if "its headquarters are located in the US, but its organization, production activities, destinations are not limited to US borders and senior corporate management. is not confined to any one region, management personnel think and act based on the requirements of international business, without limiting their activities to national frameworks, including patriotic feelings. "

The following general definition will be valid: ***multinational companies*** are companies operating internationally, locating their units in different countries of the world in order to better serve the markets, increase efficiency, competitiveness and effective access to resources and factors of production, and reduce risks.

Cost reduction is achieved as production increases ("scale effect"), accumulated experience and profitable placement. Cost reduction is also facilitated by the shift from duplication of investment and R&D expenditures, the diffusion and exchange of technology and know-how, the opening of favorable commodity markets, the international division of labor, the possibilities of financial and tax planning, taking into account the peculiarities of the functioning of financial markets and national economic policies.

The MNC, through its foreign companies, is able to access additional (possibly cheaper) raw materials, labor, financial and information resources of foreign countries.

Risk reduction is achieved through country (regional) diversification of operations, entry into new promising markets, use of various sales channels. On the other hand, it is possible to reduce the risk of investing when engaging partners from a number of national investors.

In terms of international law, the hallmarks ***of multinational corporations are:***

- the presence of multinational share capital;
- existence of a multinational leadership center;
- manning the administration of foreign branches with personnel who know the local conditions.

The latter, incidentally, is common to many transnational corporations. In general, the boundaries between these two groups of international companies are very flexible, one form can be transferred to another.

Transnational and multinational corporations should also include global corporations (GCs) that have distinguished themselves from international companies.

They originated in the 80s and continue to gain strength. Global corporations represent the full power of today's global financial capital. Chemical, electrical, electronic, petroleum, automotive, information, banking, and some other industries are the mainstay of globalization.

A multinational company is one of the most complex forms of international business organization. Such a company uses an international approach to search for foreign markets and to place production, as well as a comprehensive global business philosophy, which provides for business activities both domestically and abroad.

The organization, forms and structural features of different MNCs can be quite diverse. However, it is possible to distinguish the following basic features that underlie the MNC that distinguish this form of international business ***organization from other forms of international business:***

- corporate integrity based on the principle of shareholding;
- focus on achieving MNC strategic goals and solving common strategic goals;
- the presence of a single management vertical (with varying degrees of rigidity) and a single control center in the form of a holding company, bank or group of related companies;
- indefinite nature of the existence of the MNC.

Together with the term "multinational", the term "world" or "global" is often used to define a business that conducts international operations around the world.

It is assumed that the management of a global company:

1) apply a global, integrated approach to business in order to find new market opportunities, assess

potential threats to businesses from competitors, find new resources to expand operations (including human and financial resources);

2) seeks to consolidate the presence of the company in key country (regional) markets;

3) is focused on finding common features inherent in different geographic markets.

From this point of view, a multinational company is a kind of holding company that conducts business in different national markets and seeks through its subsidiary managers to adapt their products and marketing strategy to local characteristics.

In addition to the terms "multinational" and "global" company, a number of similar concepts are used in scientific, specialized and business literature. So, traditionally, the UN and developed country government organizations have for decades used the term "transnational" (transnational corporation, hereinafter TNC) in relation to firms doing business in more than one country. Recently, a number of scientists have begun to use the term to refer to companies that can be characterized as both global and multinational, that is, companies that seek to achieve economies of scale through global integration and, at the same time, highly adaptable to a specific external environment (new term: "multicultural MNC"). It is clear that this definition is very similar to the previously introduced concept of a global company. Businessmen, for their part, often use the term "multinational corporation" to refer to a business that resulted from a merger (rather than a joint venture or strategic alliance) of two companies of approximately the same size, but representing different countries. The most well-known and successful associations that have gained a strong international reputation include the Anglo-Dutch companies Unilever and Royal Dutch Shell, the Swedish-Swiss company ABB, the US-Swiss banking group Credit Suisse First Boston.

Today, the MNC, having become a transnational group of companies in production, trade, financial and research profile, not only remain the pillar of the economies of developed countries, but also become one of the main forces of the world economy. Thus, if in 1976 the number of MNCs was estimated at 11,000 (from more than 86,000 foreign units), then in the early 1990s their number exceeded 35,000 (147,000 foreign branches). Today, around 40,000 MNCs operate in the world, with approximately 200,000 units in 150 countries.

MNCs are leading the world economy in various indicators. In 1996, MNC's total sales were $ 5.5 trillion, or 25% of world GDP. According to various estimates, the BNC accounts from 1/4 to 1/3 of world trade. In the mid-1990s, assets of the 500 largest non-bank BNCs exceeded $ 30 trillion, with 40% of assets located outside the countries in which the parent companies are incorporated. The total number of employees in the MNK exceeds 70 million people. A similar pattern is observed in the banking sector: out of the 300 largest banks in the world, about 100 are transnational, with about 2/3 of their operations being conducted in their countries and 1/3 - abroad.

In fact, it was the MNC that transformed the world economy into a truly international production, gave impetus to the development of scientific and technological progress in its various manifestations, ensured an increase in the technical level and quality of production, an increase in production efficiency.

Particularly noteworthy is the importance of MNC in terms of improving the forms of management and organization of the enterprise, management of its commercial, production, technological and human resources. The importance attached to the consideration of the peculiarities of organization and management of formed MNC integrated structures in the course of international management.

4.2. Goals of multinational corporations

Along with the term "multinational" in scientific, specialized and business literature is used a number of similar concepts, such as "transnational", "global", "international". The term transnational corporation (TNC) has been used for decades to refer to firms doing business in more than one country. Recently, a number of scientists have begun to use it in relation to the companies that implement appropriate strategies that can be described as both global and multinational, that is, towards companies seeking to achieve economies of scale at the expense of global integration and at the same time they are highly sensitive to a diverse national environment. It should also be noted that the term "transnational company" was sometimes used in reference to a firm formed as a result of a merger of two companies of approximately the same size, representing different countries. An example of such firms is the Anglo-Dutch company Royal Dutch / Shell, a Swedish-Swiss company ABB.

Therefore, the term "MNC" can be regarded as generally applicable to companies doing international business, regardless of their specific strategies and nationality of capital.

In the world economy, the MNCs influence the economic growth of national economies and the world economy as a whole, the deployment of productive forces, the intensification of scientific and technological progress, and the increase in production efficiency. The role of the MNC in terms of improving forms of management and organizational structures, control and management systems of marketing, production, technological and personnel potential of the enterprise is also great.

The multinational nature of modern business - has already taken place and apparently has an irreversible process. Corporate internationalization takes many forms. For example, individual components of various consumer goods, such as machines, personal computers, video equipment, may be produced outside the country of final assembly of these goods.

Another example of corporate internationalization is the acquisition of a controlling stake or the complete acquisition of some firms by another foreign company. A prime example of corporate internationalization is the sale of shares and other securities in foreign capital markets.

The target orientation of a company that has decided to go into international business focuses on three main areas:

1) search and development of new markets;

2) search and use of effective resources;

3) use of the opportunities opened for business within the given country/or interstate environment.

On the other hand, there are some variables that MNC considers when choosing markets, resources, forms of entry into international business:

- the level of economic development of individual countries;
- country's natural features (including mineral resources, water, climate, etc.);
- characteristics of the demography of the country and cultural characteristics (population, its location on the territory, level of urbanization, etc.).

The growth and development of international business are triggered by a number of interacting factors that lead to the globalization of production and marketing:

1. Advances in computer technology and telecommunications have led to a rapid increase in the exchange of information and ideas across borders, allowing consumers to learn more about foreign products. For example, the spread of satellite and cable television, as well as the Internet, helps to generate global demand for certain goods or services. Global telecommunications networks allow company managers to coordinate staff development, implementation, production and sales across multiple businesses around the world.

2. Governments in many countries are consistently reducing barriers to investment and trade, which opens up new markets for international companies. Yes, most Eastern European countries have enacted legislation encouraging foreign trade and direct investment from abroad.

3. There is a tendency for unification and association within the world community. For example, in the European countries that signed the Maastricht Treaty establishing the European Union, a single market

for goods, services, capital and labor was created in 1993, and since 1999 the European Monetary Union of eleven states has been in operation and there was a change to the single currency - euro. The implementation of this strategy gives companies huge market opportunities.

At the same time, the differences between many national markets and the imperfection inherent in them remain, which is reflected, in particular, in the relative cheapness of certain resources (raw materials, labor, technologies, capital). The use of such differences and imperfection allows the participants of international cooperation to carry out, on the one hand, the global growth of their business, reducing production costs, increasing profits, and on the other - attracting international resources for this purpose. All this ensures the financial stability of international integrated business structures against crises and shocks of all kinds.

Thus, through international integration, companies achieve a variety of goals:

- access to new markets, overcoming state trade and investment barriers;
- access to new sources of resources - material, financial, labor, technological, information, organizational;
- achieving competitive advantage, eliminating or mitigating competition for the benefit of partners;
- economy on scale-up, rationalization of production, increase of its efficiency, use of advantages of vertical integration;
- risk reduction.

Access to new markets. This goal is achieved by overcoming legal restrictions on entering the foreign market, opening favorable markets in terms of distribution channels and entry of resources, improving the efficiency of production capacity.

One of the main reasons for the formation of an international integrated structure may be the establishment of long-term relationships with local firms to penetrate foreign markets. Host organizations may belong to a network of local suppliers, distributors, customers to which foreign partners may join through an alliance or through incorporation into the MNC.

An important aspect of entering a new market is *trade restrictions by the host government.* In particular, these restrictions were the root cause of the formation of MNC alliances with firms and governments of developing countries. In addition, current (or expected) local legislation requiring foreign companies to enter into alliances with local partners or specifying their minimum percentage of involvement in a local organization also leads to the creation of an international integrated structure. However, it should be acknowledged that the requirements of the law and the protectionist measures of the government are less significant than those of access to new resources or economies of scale.

Access to new sources of resources. With the help of international integration, companies gain access to additional, possibly cheaper, material, financial, labor, information and other resources of foreign countries: MNC - through their foreign enterprises.

At the initial stage, the needs for raw materials (components), production facilities, buildings, structures, financial resources, as well as the need for staff (through access to cheap and skilled labor, as well as providing enterprises with the staff of line and functional managers) are met.

In today's environment, access to information and technological resources is equally important:

- knowledge of the national economy, politics and culture, conditions and features of the national business environment (local legislation, state regulation);
- knowledge of modern business practices, traditions, methods of work in the market;
- transfer of knowledge in the field of marketing and management;
- transfer of technical know-how, access to new technologies, results of scientific researches.

The "market knowledge" factor, including understanding of the socio-cultural and competitive environment, is particularly important if the cultural differences between the firm's home country and the country of intended activity are large. Often, (at least in the initial stages of entering a new market), organizations prefer to set up a joint venture with a local firm to gain the necessary market knowledge. Of particular importance is the development of competitive advantages that generate the flow of innovation at the stages of product development, production and marketing. Such enduring advantages are the collective knowledge inherent in international business and possible to do, the coordination of diverse manufacturing experiences and the integration of different technologies.

Improving efficiency. The rationalization of international production implies that certain components are not produced in more than two locations with different costs, but are transferred where costs are lower. But there is also an added benefit. As production in a more favorable location is now higher, further reductions in the average cost per unit of output can be achieved by a "scale effect" - an increase in efficiency as production increases, which manifests itself in lower average costs as output increases.

Cost reduction is also facilitated by the shift from duplication of investment and R&D expenditures, the diffusion and exchange of technology and know-how, the opening of favorable commodity markets, the international division of labor, the possibilities of financial and tax planning, taking into account the peculiarities of the functioning of financial markets and national economic policies.

General Motors, through its joint ventures, receives a gearbox and rear axle from Japan to further assemble cars at its plants in Canada, Western Europe, South Africa and Australia. The proper MNC Ford factories in Brazil produce low-power engines for US and European markets.

Multinational corporations are characterized by *polycentric* or *regional-centric* types of parent-subsidiary relationships. *The polycentric* type is characterized by the fact that the foreign market is not a trifle, but often a more important sector of TNCs activity than the domestic market. In these TNCs, foreign affiliates are larger and more diverse; The foreign branches are dominated by local managers, the branches themselves are autonomous. This type of TNC is characterized by a rather high level of decentralization of management functions, delegation of powers to subsidiaries.

In a *regional-centric* approach, TNCs are no longer focused on the markets of individual countries but on regions, for example, throughout Western Europe, not France or the United Kingdom. Although foreign affiliates in this case are located in individual countries, but they target the whole region. This type of TNC is especially popular in integration groups.

Multinationals, in the context of the globalization of production, often place some manufacturing operations in countries characterized by low labor costs. The term "new international division of labor" was used by F. Frobel and his co-authors to refer to the pace in the 1970s of moving economic operations to "third world" countries, which was one of the ways multinational companies responded to increased competition for world markets, declining profitability and growth of the world economy. New technologies such as computerization of management information systems, new forms of telecommunications, and a more sophisticated transportation system have contributed to this shift. The theory of the new international division of labor tries to eliminate the shortcomings of previous attempts to analyze economic backwardness in the "third world", in particular, dependency theory and the world system of theory, which are unable to explain the phenomenon of economic growth in the so-called new industrial countries. According to the idea of a new international division of labor, manufacturing operations that move multinational companies to developing countries are basic processes that imply a low level of qualification, whereas those that require higher qualifications (such as research, technical development and development planning, as well as certain high-tech manufacturing operations). Thus, the new international division of labor is one in which some regions of the world specialize in low-paid, routine production operations and others on the side of the production process that is associated with high economic returns. In the 1980s and 1990s, such relocation was also observed within the First World, meaning that certain manufacturing operations were relocated to countries offering cheaper labor than other economies (within the European Community, for example, Spain and Britain) industrialized. Multinationals often find it more profitable to use an experienced and highly-skilled industrial workforce and produce goods closer to the end market for their sales, even at higher labor costs than in the Third World. In part, this has been made possible by the continued development of technology that leads to such a reduction in labor costs in manufacturing operations, in which the use of cheap labor ceases to play a crucial role.

<u>*Case 4.2.*</u>
«Foreign direct investments of Cemex»

In less than a decade, Cemex, Mexico's largest cement producer, has transformed from a predominantly Mexican company into the world's third largest cement company after Switzerland's Holcim and France's Lafarge Group. Cemex has long been an active player in Mexico and now controls over 60% of the country's cement market. The internal success of Cemex is largely based on the ongoing drive to improve production efficiency and focus on the best customer service in the industry.

Cemex is a leader in the use of information technology to align its production with customer demand. The company sells ready-made cement, which begins to solidify 90 minutes after its preparation, so timely delivery plays an important role for it. But Cemex can never predict with absolute certainty what the demand will be in a particular day, week or month. To better *meet unpredictable demand, Cemex developed an information system that included truck mounted global positioning equipment, radio transmitters, communications satellites and computer equipment to control the production and delivery of cement much better than other cement companies, respond quickly to unexpected changes in demand and lower production costs. The result is cost savings and improved service quality, which differentiates Cemex from many competitors.*

The company also pays close attention to its distributors - some 5,000 in Mexico alone - who can earn bonus points for reaching sales targets. Distributors can then convert these points to Cemex stocks. Large distributors can purchase trucks and other equipment through Cemex at significant discounts. Cemex is also known for its end-user marketing, that is, builders.

Cemex's international expansion strategy has been driven by several factors. First, the company wanted to reduce its dependence on the Mexican construction market, which was characterized by high demand volatility. Secondly, the company was aware of the high demand for cement in many developing countries where large-scale construction was underway and expected. Third, the company was confident that it understood the needs of construction firms in developing countries better than many traditional multinational cement companies from developed countries. Fourth, Cemex believed that it could reap significant benefits by buying inefficient cement companies in other markets and by instilling in them customer service and production management skills, marketing strategies and information technology.

The company began implementing its international expansion strategy in the early 1990s. Cemex focused primarily on emerging markets by acquiring cement producers in Venezuela, Colombia, Indonesia, the Philippines, Egypt and other countries. He also acquired and upgraded two strategically important companies in Spain. Inspired by the success of his efforts in Spain, Cemex began to look for expansion opportunities in other developed countries. In 2000, Cemex acquired Southland, one of the largest cement companies in the United States, for $ 2.5 billion. Following this purchase, Cemex controlled 56 cement mills in 30 countries, most of which were also acquired by the company. Cemex paid great attention to the transfer of its technology, management and marketing know-how to the acquired businesses in order to increase their efficiency.

In 2004, Cemex implemented another major overseas investment initiative, acquiring British RMC for $ 5.8 billion. RMC was a large international cement company with a turnover of $ 8 billion, of which only 22% came from the UK, and had factories in 20 foreign countries, including many European ones in which Cemex was not yet represented. The March 2005 acquisition agreement made Cemex a global player in the cement industry with annual sales of $ 15 billion and its own plants in 50 countries. Now, only about 15% of the company's sales are in Mexico. After acquiring RMC, it was revealed that its plant in Rugby was operating at only 70% of its capacity, mainly due to technological problems with the burning of raw materials. Cemex has attracted an international team of specialists to solve the problem, and soon the plant has earned 90% of its capacity.

Cemex has made it clear that it will expand further and look for new opportunities in China's and India's fast-growing economies, where its presence is currently relatively weak and its global competitors are actively expanding their operations. However, not all of Cemex's expansionist efforts were as successful as planned. In 2006, after lengthy disputes with the Indonesian government, Cemex announced that it was leaving the country's market. Cemex appeared in Indonesia in 1996, when the country began its privatization program, and acquired 25% of the shares of state-owned cement company Semen Gresik. In concluding this agreement, Indonesia promised to allow Cemex to acquire a controlling interest in Gresik in 2001. However, the Indonesian government failed to deliver on this promise as local political and trade union leaders began to express concern about "transferring Indonesian assets to foreign owners." Disappointed with these intrigues, Cemex has decided to sell its 25% stake in Gresik to one of the Indonesian companies.

***Source**: Hill C. International Business. [8th ed.] / C. Hill. - St. Petersburg: Peter, 2013. - P.272-273.*

4.3. Modern transformations of development of transnational enterprises

A transnational enterprise (hereinafter referred to as TNE) is a business enterprise operating in two or more countries. **Since the 1960s, two important trends in the development of TNPs have been:**

- ***increase in the number of non-US TNEs;*** In the 1960s, global transnational corporations dominated the global business. Thus, in 1973, 48.5% of the 260 largest transnational enterprises in the world were incorporated in the United States. The second country in this indicator was the United Kingdom - 18.8% of the largest TNEs, while Japan's share was only 3.5%. This trend can be explained by the fact that the United States during the Second World War for thirty years confidently dominated the economic aspect of the world, and a large number of British TNEs reflected the industrial leadership of this country in the first decades of the twentieth century. However, in 2008, the situation changed dramatically. Of the 100 largest non-financial TNEs in the world, only 24 were American, 13 French, 12 German, 12 British, and 9 Japanese (United Nations, World Investment Report, 2008). Thus, the globalization of the world economy has led to a relative weakening of the dominance of US firms in the global market. In addition, in recent years, there has been an increase in the number of TNEs from developing countries (in particular, Hong Kong, Taiwan, Singapore and China);

- ***the appearance of mini-TNE.*** Although much of the international trade and investment today is still carried out by large corporations (e.g. Exxon, General Motors, Ford, Fuji, Procter $ Gamble, Unilever, etc.), medium and small firms are increasingly penetrating these activities. The development of the Internet has led to the reduction of barriers faced by small firms intending to engage in international trade. For example, G.W.Bath, an international company specializing in the production of cocoa bean roasting equipment from Germany's Ludwigsburg, has a staff of 65 in total and has managed to win 70% of the global market for such equipment.

Case 4.3.
«Chinese Hisense - TNE created»

Hisense is fast becoming one of the TNE leaders in the country. Similar to many other Chinese corporations, Hisense comes from the state-owned Qingdao No.2 Radio Factory, which was established in 1969 and had only 10 employees at the beginning. In the 1970s, this state-owned enterprise began to produce TVs, and in the 1980s it was one of the first manufacturers of color TVs to be licensed by Matsushita. In 1992, 35-year-old engineer Dzhou Khudzhan was named director of the company. In 1994, Hisense Company Ltd was created instead of a state-owned enterprise and Zhou was appointed as its supervisor (he currently chairs the board of directors).

Under the leadership of Dzhou Hisense, the company has grown rapidly, diversified its business and made global expansion. By 2005, the firm had a turnover of $ 6.2 billion and was one of the first Chinese manufacturers of TVs, air conditioners, refrigerators, PCs and telecommunications equipment. In 2007, Hisense sold about 10 million TVs, 3 million air conditioners, 4 million CDMA cordless phones, 6 million refrigerators and 1 million PCs. The sale abroad brought in $ 490 *million, or more than 15% of profits. The company has opened subsidiaries in Algeria, Hungary, Iran, Pakistan and has demonstrated rapid growth in emerging markets, where it has successfully gained market share in many long-established home appliances manufacturers.*

Hisense has ambitious plans. It seeks to become a global, world-class consumer goods company. Hisense intended to increase its profits to $ 12 billion in 2010 by buying its Chinese rival Kalon, which was in a difficult position at the time. Hisense, which is certainly a low-cost producer, differs from other companies with the belief that its main advantage is not the rapid production, but the rapid introduction of innovation. The company is convinced that the only way to gain leadership in the highly competitive markets in which it operates is to continuously create advanced, high quality and competitively priced products. To achieve this, the company established a personal research and development center in China in the mid-1980s. In 1997, an ID was established in South Africa, and in 2007 another center in Europe. Hisense also plans to open an IP center in the US. In 2006, these centers received 534 patents for their inventions.

Hisense technological innovation is evident in the digital TV industry. In 1999, she first developed new equipment that would allow it to go online using a TV. In 2002, Hisense launched its first interactive digital TV, and in 2005 developed the first Chinese microprocessor for digital TVs, making its country independent from foreign manufacturers. In 2006, Hisense launched a line of multimedia TVs that use both high-definition imaging and flat-screen technologies.

As another example, let's consider Lubricating Systems, Inc. The company produces lubricating emulsions for glasses, employs 25 workers and sells products for $ 6.5 million. It is unlikely to be called a large TNE, but more than $ 2 million of its profits is provided by exports to many countries, including Japan, Israel. To serve the European market, Lubricating Systems has also set up a joint venture with a German company. Another such example would be Lixi, Inc., a small American company that manufactures industrial X-ray equipment. Almost 70% of Lixi's profits come from exports to Japan. Or consider G. W. Barth, manufacturer of cocoa bean roasting equipment. With only 65 employees in the state, this small company has won 70% of the global market for such equipment. Not only large firms but also medium and even small businesses are engaged in international business.

***Source**: Hill C. International Business. [8th ed.] / C. Hill. - St. Petersburg: Peter, 2013. - P. 47-48.*

CONTROL QUESTIONS:

1. What are multinational corporations?
2. What are principles for organizing multinational corporations?
3. What are the main goals of multinational corporations in their activities?
4. What do you know about the key features of multinational corporations that distinguish this

form of international business organization from others?
5. What made Cemex from a predominantly Mexican company into the world's third largest cement multinational corporation in the world?
6. What are familiar types of parent and subsidiary relationships within multinational corporations?
7. Why has the number of non-US TNEs been increasing rapidly in recent decades? Justify the answer.
8. What are your current trends in TNE development?
9. What are the ambitious plans of China's Hisense multinational corporation?
10. Why has the number of mini-TNEs in the world economy been actively increasing in the last decade?

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Part II

Internal environment of international business

CHAPTER 5

TYPES OF STRATEGIES OF INTERNATIONAL COMPANIES

5.1. The essence of the strategies and the reasons for their choice

5.2. Choice of basic strategies and their evolution

5.3. Groups of reference strategies for international business development

Case 5.1.
«Coca-Cola»

Coca-Cola, an icon of the US carbonated beverage market, has long remained the most international of all US corporations. For the first time the company went beyond the US market in 1902, having begun trading in Cuba. In 1929, «Coke» was sold in 76 countries around the world. During World War II, Coca-Cola entered into an agreement to supply its products to U.S. troops who fought outside their homeland. During this period, the company built 63 plants in different countries. The global expansion of the company continued after the end of the war, reinforced by the belief that the US market would soon be fully saturated and that overseas the company had huge growth opportunities. Today, more than 59,000 employees from the company's general staff of 71,000 people work in 200 countries, excluding the US, and more than 70% of Coca-Cola's production is sold in international markets.

Until the 1980s, the company used a localization strategy. The foreign subsidiaries had a great deal of autonomy in managing their operations. But that all changed in the 1980s and 1990s under the direction of Roberto Goizueta, a talented Cuban immigrant manager appointed by the Coca-Cola CEO in 1981, Goizueta gave a new sound to Coca-Cola's flagship brands, which were expanded upon the launch of Diet Coke, Sherry Juice and *other novelties. He was firmly convinced that the main difference between the US market and foreign markets was the weak penetration into these markets, where consumption of "circle" beverages per capita was only 10-15% of US consumption. Gaysweta decided to make Coca-Cola a global company, concentrating management and marketing functions at its headquarters in Atlanta, increasing its focus on major brands and increasing Coca-Cola's stake in the capital of overseas beverage producers to strategically control their operations. This «one-size-fits-all» strategy was based on product and process standardization and economies of scale, such as using the same worldwide advertising.*

His strategy was continued by his successor, Douglas Ivester, but by the late 1990s, the attractiveness of the strategy had diminished as more local small-scale soft drink producers began to squeeze Coca-Cola. Since the company failed to meet its financial goals for the first time in a quarter of a century, in 2000 Ivester was retired and Douglas Duft was replaced. Daft changed the strategy 180 degrees. He reckoned that Coca-Cola should return to empowering managers of foreign subsidiaries. Daft believed that strategy, new product development and marketing needed to adapt to local needs. He cut 6,000 jobs, mostly in Atlanta, and gave overseas managers more autonomy. In addition, he stated that the company was ceasing global advertising, and transferred control of the budget and content of advertising into the hands of foreign subsidiaries.

Daft's actions have been partly influenced by the experience of Coca-Cola in Japan, the company's most profitable market, where the most popular Coca-Cola *product is not «Georgia Coffe», cold drink coffee in tin cans. The Japanese experience apparently signaled that drinks should be customized to suit local tastes and preferences and that Coca-Cola should be given more decision-making power by local overseas managers.*

However, the transition to a localization strategy did not deliver the expected growth, and in 2002, a return to more centralized coordination began, which involved increasing controls from headquarters in Atlanta for marketing and developing new products in other countries. However, this time, there was no return to the «one-size-fits-all» strategy of the Goizueta era. Under the leadership of Neville Isdell, who became CEO of the company in March 2004, Coca-Cola monitors and directs the marketing and development of new products locally, while demonstrating confidence in the strategy (including pricing issues and marketing communications) should vary from market to market based on local conditions. In other words, Isdell's strategy is somewhere in the middle between the Goysueta and Daft strategies. In addition, Isdell has always emphasized the importance of gathering good ideas that arise in different countries. One such idea was related to «Georgia Coffe». Following the success of this beverage in Japan, Coca-Cola entered into a strategic alliance with Italian coffee maker Illycaffe in October 2007 with the aim of setting up a franchised cold coffee beverage bank. In 2003, one of China's Coca-Cola subsidiaries developed a low-cost non-carbonated orange drink that quickly became one of the most popular beverages in the local market. Considering the potential of this drink, Cosa-Cola has now launched it in other Asian countries. It became a real hit in Thailand, first *launched in 2005, and has every chance of continuing its in India.*

Source: *Hill C. International Business. [8th ed.] / C. Hill. - St. Petersburg: Peter, 2013. - P. 414-415.*

Glossary:

Strategy *is a long-term qualitatively outlined direction of the organization's development, concerning the sphere of activity of the organization, the means and forms of its activity, the system of relationships within the organization, as well as the positions of the organization that it wants to gain as a result of its activity.*

The experience curve reflects *the systematic reduction in production costs observed over the life of the product.*

The learning effect *is the cost savings provided by on-the-job training.*

Economy of scale effect *is the reduction in the cost of a unit of production, which is achieved due to the large volume of production.*

5.1. The essence of the strategies and the reasons for their choice

There are many reasons why an organization can develop an international strategic development option. ***Well-known American management theorist P. Koper (1980) identified two groups of factors that***

determine whether or not an international business development option is attractive to a company:

1) ejection factors. They are caused by a lack of business opportunities in the local market due to low product prices or government constraints (such as antitrust legislation), which is often the reason for a company to seek international business opportunities;

2) retraction factors. They arise when there are better conditions for business development abroad, such as preferential taxation and other factors. It is no secret that many Western firms place their production abroad, especially in Asian countries, because of the relative cheapness of labor there .

Choosing an international business strategy involves high risks. ***Typical difficulties of international strategies are the following:***

- problems in deciding what and how different products (services) should be in order to be attractive to different foreign markets;

- difficulties with currency conversion and exchange rates;

- issues related to cost and profitability forecasting should be based on forecasting the movement of exchange rates, and incorrect forecasting in this area can cost companies very expensively;

- the company will be exposed to the effects of different cultures, which can create significant managerial problems, especially in cases where there is a practice of transitioning managers from country to country;

- usually there are structural problems; When choosing international strategies, the question often arises: what structure is best adopted by organizations operating in the international economic environment;

- tax problems: the company will look for solutions to translation problems to reduce taxes and show maximum profit in the country where taxes are lowest (transfer pricing);
- the presence of political risk associated with the likelihood that foreign deposits of the enterprise will be hampered by the policy of the government of the host country.

These issues need to be analyzed very carefully to choose a firm's development strategy.

The word "strategy" is of Greek origin and means "the art of deploying troops in battle." However, this military term has been widely used by specialists of managament theory and practice over the last 20 years. Strategy is a set of rules that governs the organization in making management decisions.

Strategic management is now the most important factor for successful survival in an increasingly complex market environment.

The choice of strategy and its implementation are a major part of the content of strategic management activities. In strategic management the strategy is considered as a long-term qualitatively defined direction of development of the organization, concerning the sphere of activity of the organization, the means and forms of its activity, the system of relationships within the organization, as well as the positions of the organization that it wants to gain as a result of its activity. The strategy then answers the question of how the organization will be able to achieve its goals in a changing and competitive environment. Strategy, defines the freedom of choice according to the changing situation.

According to one of the leading experts and theorists in the field of strategic management M. Porter, ***there are three main areas of developing a strategy of behavior of the firm in the market:***

The first area is related to leadership in minimizing production costs. This type of strategy is related to the fact that the company achieves the lowest costs of production and sales of its products. As a result, it can achieve greater market share through lower prices for similar products. Firms implementing this type of strategy should have a good organization of production and supply, good technology and engineering base, as well as a good system of distribution of products, that is, to achieve the lowest cost, at the highest level should do everything related with the cost of production. Marketing, however, should not be highly developed in this strategy.

The second area of strategy development is related to specialization in production of products. In this case, the company must carry out highly specialized production and marketing in order to become a leader in the field of production of its products. This causes buyers to choose this brand, even if the price is high enough. Firms implementing this type of strategy should have high R&D potential, excellent designers, an excellent product quality assurance system, and an advanced marketing system.

The third area of strategy definition relates to the fixation of a particular market segment and the concentration of efforts of the firm in the selected market segment. In this case, the company does not seek to work in the whole market, but works in its clearly defined segment, thoroughly clarifying the market needs for certain types of products. In this case, the company may seek to reduce costs or pursue a policy of product specialization. It is also possible to combine these two approaches. However, it is absolutely imperative for third type of strategy that a company must base its activities primarily on analyzing the needs of customers in a particular segment of the market, that is, in its intentions to proceed not from the needs of the market at all, but from the needs of well-defined or even specific clients.

It is worth noting that, for most companies, the main goal is to maximize shareholder value. This process requires the firm to focus its efforts on increasing its profitability and profit growth rate. International expansion can allow a firm to increase revenue by shifting product offers created using key competencies to markets where local competitors do not have such product offerings and competencies. It may be advantageous for a firm to locate each value-producing activity it performs in those countries where the state of the factors of production is most favorable to the performance of that activity. This strategy is aimed at saving local benefits. It can reduce the cost of value creation and help the firm take a low-cost position and / or differentiate its product offer from the competitors.

By rapidly expanding sales of standardized goods, international expansion can help a firm move down the experience curve, thanks to training effects and economies of scale.

The experience curve reflects the systematic reduction in production costs observed over the life of the product.

The learning effect is the cost savings provided through on-the-job training. Worker training is most effective when performing a task again, such as when collecting aircraft fuselages. Productivity increases over time as employees learn the most effective ways to accomplish work tasks.

Economy of scale effect is the reduction in the cost of a unit of production, which is achieved due to the large volume of production. Sources of this savings: First, the ability to divide fixed costs into a large number of units of goods (in this case, fixed costs means the cost of creating a new industrial enterprise, developing a new product, etc.). Second, a firm may not be able to achieve effective production volume if it does not serve the global markets (in the automotive industry, only plants designed to produce at least 20,000 machines a year can operate effectively). Third, as global sales increase the size of the enterprise, so does the firm's ability to dictate its terms in negotiations with suppliers, enabling it to achieve economies of scale when making purchases, reducing raw material costs, and thus increasing profitability.

5.2. Choice of basic strategies and their evolution

As a rule, four types of basic strategies are used in the practice of international business: global standardization, localization, international and transnational.

1***) a strategy for global standardization.*** Firms using a global standardization strategy are focusing their efforts on increasing profitability and profit growth by reducing the costs of scale, training and local benefits. That is, their main goal is to implement a low-cost strategy on a global scale. Firms using a global standardization strategy for production, marketing functions are concentrated in several of the most appropriate locations. Companies here do not try to customize their product offerings and marketing strategy to local conditions, because customization means reducing the size of batches of manufactured products and duplication of functions, which leads to higher costs. Instead, such firms prefer to sell standardized products worldwide to maximize the benefits of scale and learning. This strategy is most appropriate when the firm is subjected to strong pressure, which causes it to reduce costs, and the requirements for local response are minimal. Typically, this is the case in many manufacturing industries that serve universal needs (semiconductor devices have global standards, Intel, Texas Instruments, Motorola). In consumer markets, such a strategy has not yet been implemented.

2) localization strategy. It focuses on increasing profitability by customizing the firm's products and services so that they better meet the tastes and requirements of different national markets. A localization strategy is most appropriate when there are significant differences between countries in terms of consumer requirements and when the cost reduction requirements are not too strong. By adapting the product offer to local requirements, the firm increases the value of its product in the local market. Its disadvantage is that due to the duplication of functions and the production of goods by smaller parties, customization limits the ability of the firm to achieve the cost reduction that is possible in mass production. However, such a strategy may make sense if the value added associated with local customization makes it possible to set a higher price (the auto industry, pick-up for Americans and small cars for Europeans and Japanese).

3) transnational strategy. In today's global environment, competition is fierce, so in order to survive, firms must do their utmost to respond to cost savings and adaptation to local conditions. Firms using a transnational strategy, first, seek to achieve reducing cost through savings by means of local benefits, scale effect and learning effect; secondly, to differentiate their product offerings into different markets, taking into account local differences and thirdly, to provide multilateral exchange of skills between different enterprises in the firm's global production network. However, it is extremely difficult to put into practice (Caterpillar has been able to compete with Komatsu and Hitachi).

4) international strategy. Some multinational firms are in a very favorable position: they do not feel the urgent need to either reduce costs or respond to the demands of local markets. Most of these companies are implementing an international strategy by taking products made locally and selling them in other countries with minimal adaptation to local requirements. The distinctive feature of such firms is that they sell goods that serve universal needs, but at the same time they do not have serious competitors and therefore should not worry about cost reductions (Xerox found itself in a similar advantageous situation in the 1960s after the invention and photocopier commercialization, Procter & Gamble, Microsoft).

As competition intensifies, international and localization strategies become less viable, and managers need to refocus their firms on a global standardization strategy or a transnational strategy.

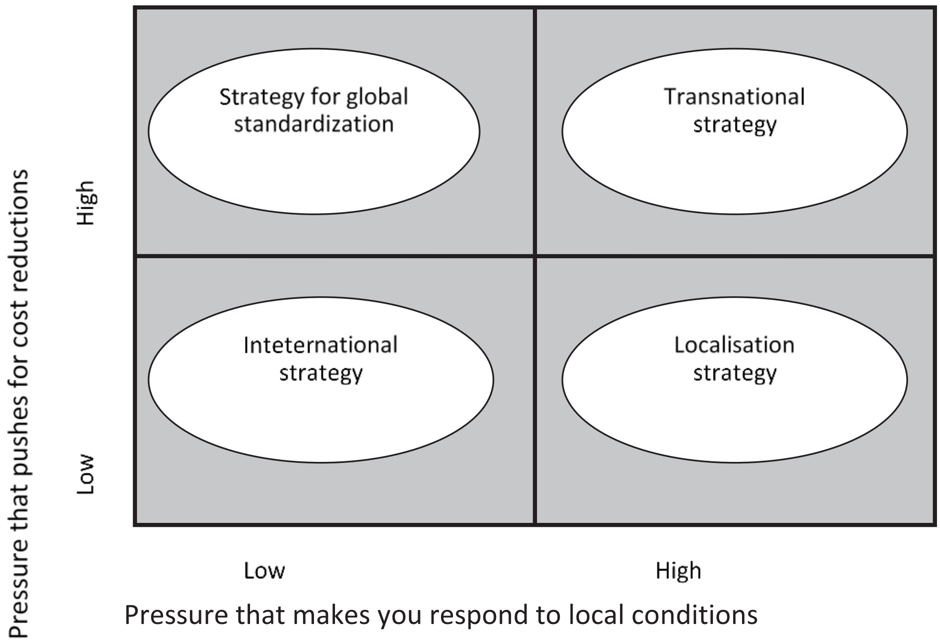

Fig. 5.1. *Basic strategies of international business*

Source: *Hill C. International Business. [8th ed.] / C. Hill. - St. Petersburg: Peter, 2013. - P. 405.*

Case 5.2.
«Strategy evolution of Procter & Gamble»

Founded in 1837, Procter & Gamble, headquartered in Cincinnati, has long been one of the largest international companies in the world. Today, Procter & Gamble is a global colossus in the consumer goods industry, with annual sales of $ 50 billion, over 54% of which are outside the US. P&G sells more than 300 brands, including Ivory, Tide, Pampers, Crisco Folgers, to more *than 160 countries. Traditionally, the P&G strategy was well-tuned. The company developed new products in Cincinnati and then, with the help of semi-autonomous foreign affiliates, produced, sold and distributed these goods to different countries. Often, foreign affiliates have their own manufacturing facilities and have adapted the packaging, brand name and marketing message to local tastes and preferences. For many years, this strategy has provided a steady flow of new goods and guaranteed growth in sales and profits. However, in the late 1990s, P&G earnings growth slowed.*

The essence of the problem was simple. P&G costs have become too high due to over-duplication of production, marketing and administrative functions at various foreign affiliates. This duplication made sense in the 1960s, when national markets were separated by barriers, hampering cross-border trade. For example, goods manufactured in the UK could not be economically sold in Germany because of the high import duties imposed by that country. However, in the 1980s, barriers to international trade rapidly collapsed around the world, and previously isolated national markets began to integrate into large regional or global markets. In addition, retailers through which P&G sold their products have become larger and more global (including Wal-Mart in the US, Tesco in the UK and Carrefour in France). And by the time of the start, global retailers were demanding P&G price discounts.

In the 1990s, P&G implemented a major reorganization to better control its cost structure and try to take into account the realities of emerging global markets. The company has closed about 30 of its plants *worldwide, laid off 13,000 employees and concentrated production at several plants that could best save economies of scale and serve regional markets. But that was not enough. Profits grew slowly, so in 1999, P&G conducted its second reorganization in decades. Its goal was to transform P&G into a truly global company. P&G abandoned the previous regional-based organizational structure and replaced it with seven autonomous business units (business lines varied: from child care products to food items). Each unit of business was fully responsible for generating revenue from the sale of its products, as well as for the production, marketing and development of new products. Each business unit was instructed, first, to streamline its production and concentrate it on a smaller number of large enterprises; secondly, to try to create global brands where possible and thus eliminate market differences between countries; and, third, to accelerate the development and launch of new products. P&G has announced that it will close 10 more plants and lay off 15,000 employees, mainly in Europe, where significant asset duplication has remained, as part of the initiative. Cost reductions were estimated at approximately $ 800 million. P&G planned to use cost savings to lower prices and increase marketing costs to try to increase market share and thus further reduce costs by achieving economies of scale. This time, the strategy seems to have worked successfully. In 2003-2007, P&G reported steady growth in sales and profits. It was also important that global P&G competitors such as Unilever, Kimberly-Clark and Colgate-Palmolive experienced difficult times in 2003-2008.*

Source: *Hill C. International Business. [8th ed.] / C. Hill. - St. Petersburg: Peter, 2013. - P. 410-411.*

The evolution of basic strategies. The downside of the international strategy is that over time, firms will inevitably emerge competitors, and if managers do not take active steps to reduce costs, then the firm will quickly outperform its most effective global competitors. This is exactly what happened with Xerox. Japanese companies, including Xerox, set up their own photocopiers at high-end enterprises, started selling these devices at a cheaper price than Xerox, and quickly pushed them into the global market. But the Xerox fiasco was driven not by the emergence of competitors, because, in the end, it was inevitable, but by the company's inability to start reducing its costs of penetrating effective global competitors early on. The lesson from this story is that an international strategy may prove unsustainable in the long run and that, in order to survive, firms need to move to a global standardization strategy or a transnational strategy before their competitors.

The same can be said about the localization strategy. Localization can give a firm a competitive edge, but if the emergence of aggressive competitors is inevitable, then the firm also needs to change its cost structure in advance, and the only way to do this is to move to a transnational strategy. That's what P&G did. Thus, as competition increases, international and localization strategies become less viable, and managers need to refocus their firms on a global standardization strategy or a transnational strategy.

5.3. Groups of reference strategies for international business development

The most common, proven, and widely publicized business development strategies are commonly referred to as benchmarks. They reflect four different approaches to firm growth and are related to the changing state of one or more of the following: product, market, industry, firm position within the industry, and technology (adaptability). Each of the five elements can be in one of two states: existing or new.

1. The first group of reference strategies is ***concentrated growth strategies.*** These include strategies for changing a product and / or market. They do not affect other elements. When using these strategies, the company tries to improve its product or start producing a new one without changing the industry. Regarding the market, the company is looking for opportunities to improve its position in the existing market or opportunities to transition to a new market.

Specific types of first group strategies:

Strategy to strengthen the position in the market - the company does its best to win the best position with this product in this market. This strategy requires a lot of marketing efforts. Its implementation also involves the implementation of "horizontal integration", in which the company tries to establish control over its competitors.

The market development strategy is to find new markets for a product already manufactured.

Product development strategy involves solving the problem of growth by producing a new product. It is advisable to implement it in an already developed company market.

2. The second group of reference strategies is business strategy, which involves expanding the firm by adding new structures. These are called **integrated growth strategies.** Typically, a company can resort to these strategies if it is in strong business and cannot pursue concentrated growth strategies. At the same time, integrated growth does not contradict its growth, either by acquiring property or expanding from within. In both cases, there is a change in the position of the company within the industry.

There are two main types of integrated growth strategies:

A reverse vertical integration strategy that seeks to grow a company by acquiring or enhancing control over suppliers, and by creating subsidiaries that deliver. The implementation of the reverse vertical integration strategy can give the company favorable results related to reducing the dependence on price fluctuations for components and suppliers' requests. Deliveries as a cost center for a firm can be transformed in the case of reverse vertical integration into a revenue centre.

A strategy for the gradual formation of vertical integration, which is reflected in the growth of the company through the acquisition or strengthening of control over structures located between the company and the end consumer, that is, over distribution and sale systems. This type of integration is beneficial when brokerage services are expanded or a company is unable to find quality brokers.

3. The third group of benchmarking business development strategies - ***diversified growth strategies*** - are implemented if companies cannot continue to develop in the relevant market with the relevant product within the relevant industry. *The strategies of this type are as follows:*

The centred diversification strategy is based on finding and utilizing existing business opportunities to produce new products. Existing production remains at the heart of the business, and new arises from the opportunities that are inherent in the developed market, the technology used, and other strengths of the company. An example - a linen fabric manufacturer organizes the production of clothing from these fabrics.

The horizontal diversification strategy seeks to find growth opportunities in the existing market through new products that require new technology different from the one used. In such a strategy, the company should focus on the production of technologically unrelated products that would take advantage of existing capabilities of the firm, such as in the field of supply. Since the new product must be consumer-oriented for the main product, by its qualities it must be associated with the product already produced. An important condition for the implementation of this strategy is a preliminary assessment by the firm of its own competence in the production of a new product. An example here is a strategy for the production of motorcycles (trailers, etc.) at a car company.

The strategy of conglomerate diversification is manifested in the fact that the company is expanding due to the production of new products that are not technologically related to the already manufactured ones. New products are being launched in new markets. This is one of the most difficult to implement development strategies, because its successful implementation depends on many factors (competence of staff, and especially managers, seasonality in the life of the market, the availability of the necessary sums of money, etc.). An example is the organization of production of refrigerators at a metallurgical plant.

At present, most foreign companies are widely diversified enterprises.

The main danger of this diversification strategy is the dispersion of forces. Therefore, the strategy can be implemented mainly by large organizations with great potential.

<u>Case 5.3.</u>
«Daimler-Benz»

For many, the Mercedes car company should be an exceptionally prosperous company. The head of the Daimler-Benz concern announced that the losses of the concern in 1995 amounted to several billion dollars. The initial idea was to turn Daimler-Benz into a multidisciplinary technology concern and in 1985 acquired the Motor and Turbine Union company that manufactures aircraft engines. In the same year, he acquired a controlling stake in aircraft manufaturer Dornier. In 1985, the concern acquired 25% of the shares of the electrical engineering company "AEG". In an effort to expand its presence in the aerospace business, D-B began negotiations with the Dutch airline Fokker in 1990. Negotiations were started in the year of obtaining a very high profit by Fokker. However, immediately next year, Fokker suffered huge losses. D-B invested more than $ 600 million in trying to *save the catastrophic situation. But in 1995, Fokker again suffered losses, and D-B decided that it was no longer possible to render assistance to Fokker. This meant leaving it and billions in losses. At the same time, Daimler-Benz decided to part with a controlling stake in Dornier.*

Losses in the turboprop and jet aircraft market have been quite clear as the demand for these products has fallen since the end of the Cold War. But Daimler-Benz also suffered significant losses from the activities of the AEG electrotechnical department. This caused the concern to go on termination of independent existence of this branch. In fact, this meant that, after suffering huge losses, Daimler-Benz had set out to move away from those industries where it did not initially and in which it came, seeking to make effective investments in the capital created in its core business - automotive.

4. The fourth type of reference business development strategies is **reduction strategies.** These strategies are implemented when a company needs to regroup after a long period of growth or due to the need to improve efficiency, especially when there are downturns and dramatic changes in the economy (eg structural restructuring, etc.). In these cases, companies resort to targeted and planned reduction strategies. The implementation of these strategies is often not painless for this organization. However, it must be clearly understood that these are the same development strategies of the firm as the growth strategies considered; in certain circumstances they cannot be avoided; these are the only possible strategies for business recovery, since in the vast majority of cases, renewal and overall acceleration are mutually exclusive business development processes.

There are four types of targeted business reduction strategies:

- *liquidation strategy* is an extreme case of a reduction strategy. It occurs when a company is unable to continue its business;
- *"harvesting" strategy* involves giving up a long-term view of the business in favor of maximizing revenue in the short term. This strategy applies to a non-profit business that cannot be sold profitably but can generate revenue during harvesting. This strategy involves reducing the cost of purchasing raw materials, components, and labor. It maximizes the sales revenue of an existing product and continues to reduce production. The strategy of "harvesting", calculated with the gradual reduction of this business to zero, to achieve the maximum total income.
- *reduction strategy* - a company closes or sells one of its units (or businesses) to make a long-term change to the business frontiers. Often this strategy is implemented by diversified companies, when one of the productions is poorly combined with the other. This strategy is being implemented when it is necessary to obtain funds for the development of more promising or to start new, more relevant to the long-term goals of a business firm;
- *cost reduction strategy*. The main idea is to look for cost reduction options and take appropriate cost cutting measures. This strategy has certain features: it is more focused on eliminating relatively low cost sources; its implementation has the

character of temporary or short-term measures and is associated with a decrease in production costs, increased productivity, reduction of hiring and even the dismissal of staff, the cessation of production of profitable goods and the closure of profitable facilities.

In practice, a company can simultaneously implement several strategies. This is especially common in multi-industry companies. There may be some consistency in strategy implementation by the firm. The first and second cases say that the company is implementing a combined strategy.

CONTROL QUESTIONS:

1. What is a strategy?
2. What do you know about the typical difficulties of international strategies?
3. What are the main areas of development of the firm's market behavior strategy for M. Porter?
4. What is economies of scale?
5. What do you know about the basic strategies of international business?
6. How is the strategy of global standardization different from transnational?
7. What kinds of basic strategies are more justified for an international firm in case of increased competition in the foreign market? Justify the answer.
8. How has Procter & Gamble's core international business strategy evolved?
9. What are the strategies for concentrated growth of international companies?

10. What do you know about diversified growth strategies?
11. Why do you think the international company Daimler-Benz has debated trying to become a multidisciplinary technology concern?

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CHAPTER 6

ORGANIZATIONAL ASPECTS OF DEVELOPMENT OF INTERNATIONAL COMPANIES

6.1. The essence of the concept "organizational structure”, its types in the international business

6.2. Control systems and incentives in the organization

6.3. The relationship of organizational structure and control systems with strategy of international firm

Case 6.1. ***«Nestle»***

For many years, Nestle, the world's largest food and beverage company, has had a pronounced decentralized organization. The organization expressed the company's conviction that there was no concept of large-scale consumer in the food and beverage business and that the need to customize product offerings to local tastes required the creation of autonomous national subsidiaries. However, Nestle has recently abandoned such a structure. The catalyst for this process was the destruction of trade barriers and the emergence of more integrated regional and large-scale markets in which companies had to contend with competitors such as Unilever and Procter & Gamble.

Faced with increasing competition, Nestle realized that it needed to adapt its organizational structure so that it could take into account local features and at the same time provide cost savings by eliminating duplication of operations of its subsidiaries. Gradually, the company approached the creation of global business units that controlled strategies for major product lines, and achieved cost savings by concentrating key purchasing functions, manufacturing in the areas that best suited them. At the same time, marketing and sells continued to be decentralized by foreign subsidiaries, whose managers themselves formed the marketing and *sells mix in such a way that it would best meet the needs of customers and local distribution systems. Such a structure is now adopted in the Nestle bottled water business and in the infant formula business. For example, the bottled water business is concentrated in Italy and France in order to achieve economies of scale. This business has also developed a global strategy for positioning its brands. At the same time, foreign companies have been given the opportunity to develop programs for implementing a branding strategy in their regions, adapting their approach to local conditions.*

***Source**: Hill C. International Business. [8th ed.] / C. Hill. - St. Petersburg: Peter, 2013. - P. 420-421.*

6.1. The essence of the concept «organizational structure", its types in the international business

Organizational structure - a formal division of an organization into structural units such as product units, national subsidiaries and functions.

It should be emphasized that the organizational structure can be considered in three dimensions:

1) *vertical differentiation*, which should mean the distribution of responsibility for decision making in the structure;

2) *horizontal differentiation*, which is a formal division of the organization into units;

3) *creation of integrating mechanisms* that ensure coordination of the units.

Vertical differentiation of the firm determines where in the organizational hierarchy the powers of decision-making are concentrated. Are they concentrated in the offices of top managers (centralization) or are they partially transferred to lower level managers.

Centralization can facilitate coordination, subordination of decisions made to the organization's goals, allows senior executives to make the necessary organizational changes, and helps avoid duplication of effort that occurs when different organizational units perform the same activities.

Decentralization may be justified, since the top management of the company may in some cases be overburdened, people work better when they have more freedom. In addition, decentralization allows the firm to be more flexible and quick to respond to changes in the external competitive environment, as well as to improve the quality of management decisions, as the latter are made locally by those individuals who are better informed about the problems.

Horizontal differentiation determines how a firm addresses the issue of its division into units. It should be noted that most companies do not initially have a formal structure and are managed by one entrepreneur or a small group of individuals. As the firm grows, management needs become extremely serious for one person or a small team to cope with. It is from this point on that the organization begins to divide into functional units (functions) in accordance with the types of activities of the firm providing value creation (for example, production, marketing, finance, logistics, etc.). As a rule, these functions are coordinated and controlled by top managers (see Figure 6.1). In most cases, decision making in such a functional structure is carried out centrally.

Further horizontal differentiation may be required when the firm is further differentiating its product offering, leading it to engage in various types of business (for example, Dutch TNC *Philips* initially started producing only lighting equipment, but as a result of diversification began to produce consumer electronics, industrial electronics and medical equipment).

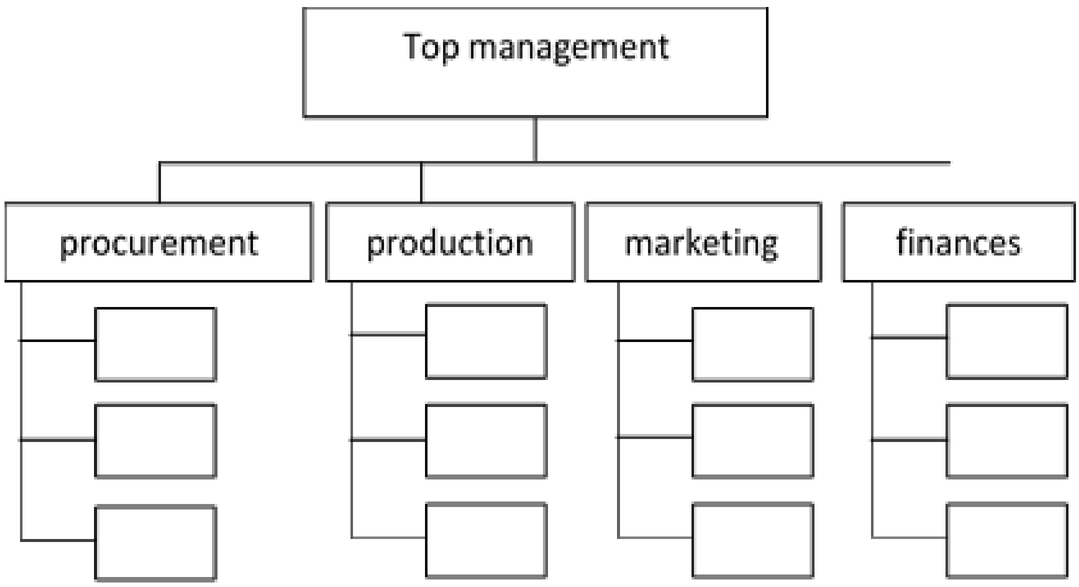

Fig. 6.1. Typical functional structure

This raises the problem of coordination and control, for which most firms begin to apply *the commodity divisional structure* (see Fig. 6.2.).

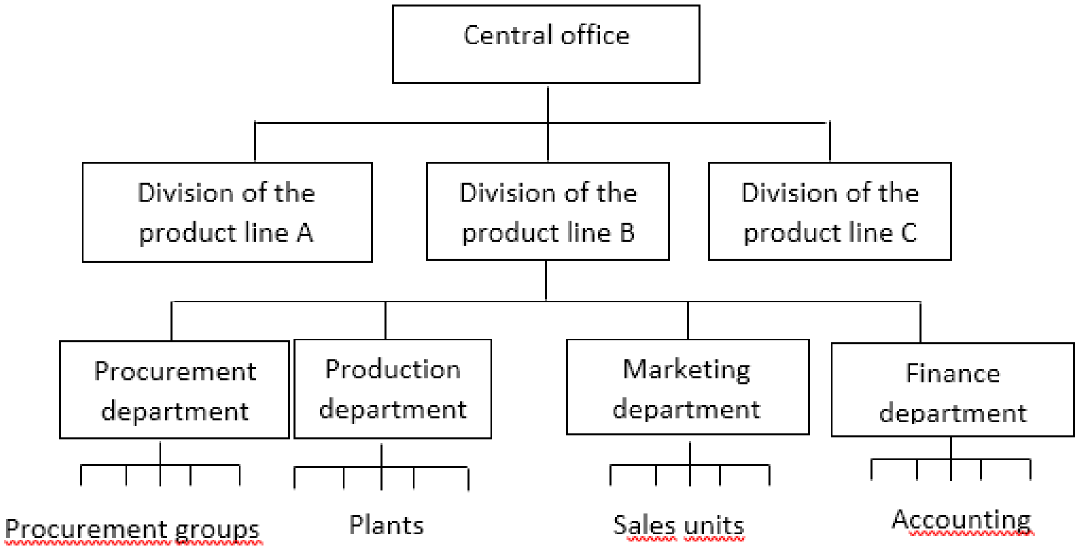

Fig. 6.2. Typical commodity divisional structure

Here, each unit is responsible for its product line.

When a company starts its business abroad, it often concentrates all activities in other countries in the international unit. In particular, the international division is based on the geographical principle. According to the Harvard study, it was the international divisional structure that was used in 60% of all firms in the early stages of foreign expansion.

However, this structure has several disadvantages: the appearance of conflicts and the problem of coordination between domestic and foreign operations and lack of coordination between them that find themselves isolated from each other in different parts of the organizational hierarchy. This may complicate the further distribution of new goods and the like.

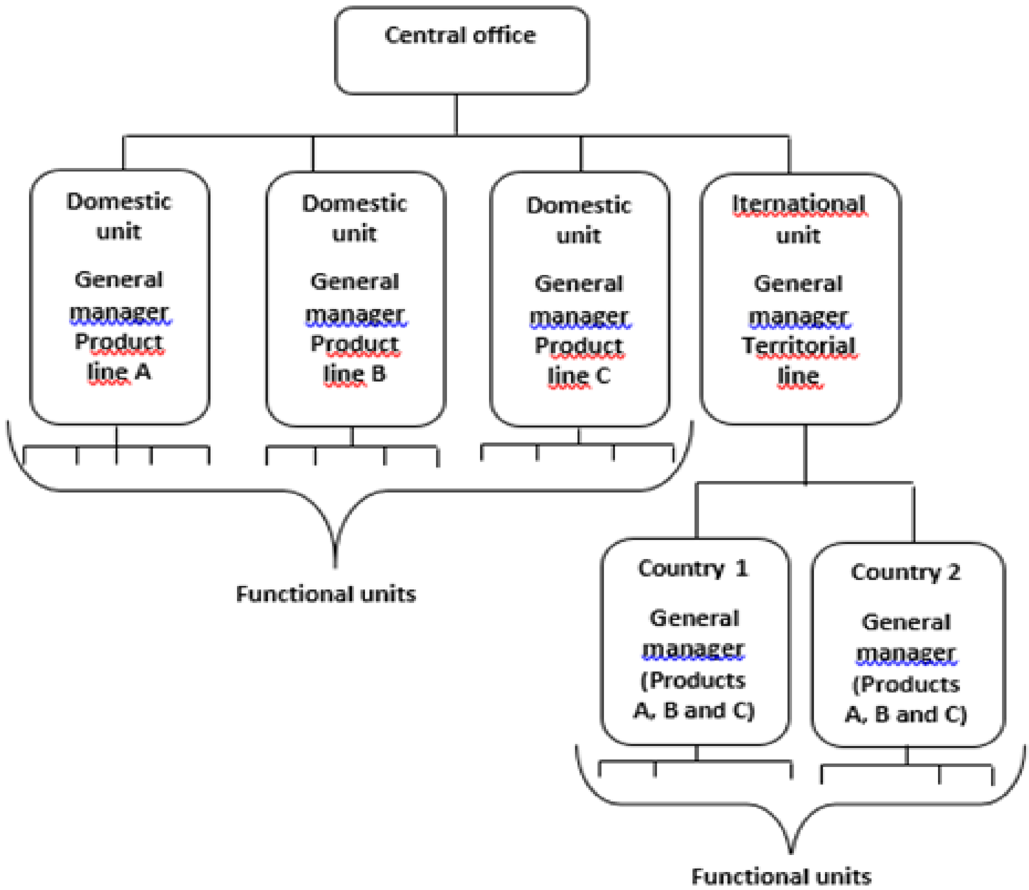

Fig. 6.3. International divisional structure of the firm

As a result of such problems, many firms that continue to develop international expansion abandon such an organizational structure and begin to apply one of the **global structures:** *a global geographical structure, a global commodity divisional structure, and a global matrix structure.*

Firms with a low degree of diversification and with a domestic functional structure tend to prefer *a global territorial (geographical) structure* (see Figure 6.4). According to this structure, the whole world is divided into geographical regions. A sufficiently autonomous structural unit is created for each region with its own set of value-generating activities (eg production, marketing, finance, etc.). Operations and decision-making powers are decentralized and delegated to each region, while the head office retains the power to create an overall strategic direction for the firm's development and for financial control.

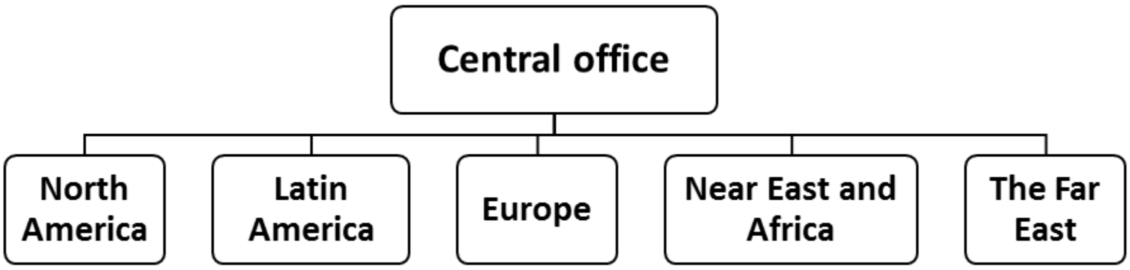

Fig. 6.4. Global territorial structure

In turn, firms that are rationally diversified and from the outset have a domestic structure that is created from commodity units tend to form a *global commodity divisional structure* (see Figure 6.5.). Such an organizational structure is based on the principle that the value creation activities of each product unit should be coordinated by this unit worldwide.

It is worth noting that if the global geographical structure facilitates the process of responding to local features but complicates the savings from local requirements and from the effects of the experience curve, then the global commodity divisional structure is the opposite. To solve the problem, they sometimes turn to the matrix structure for help.

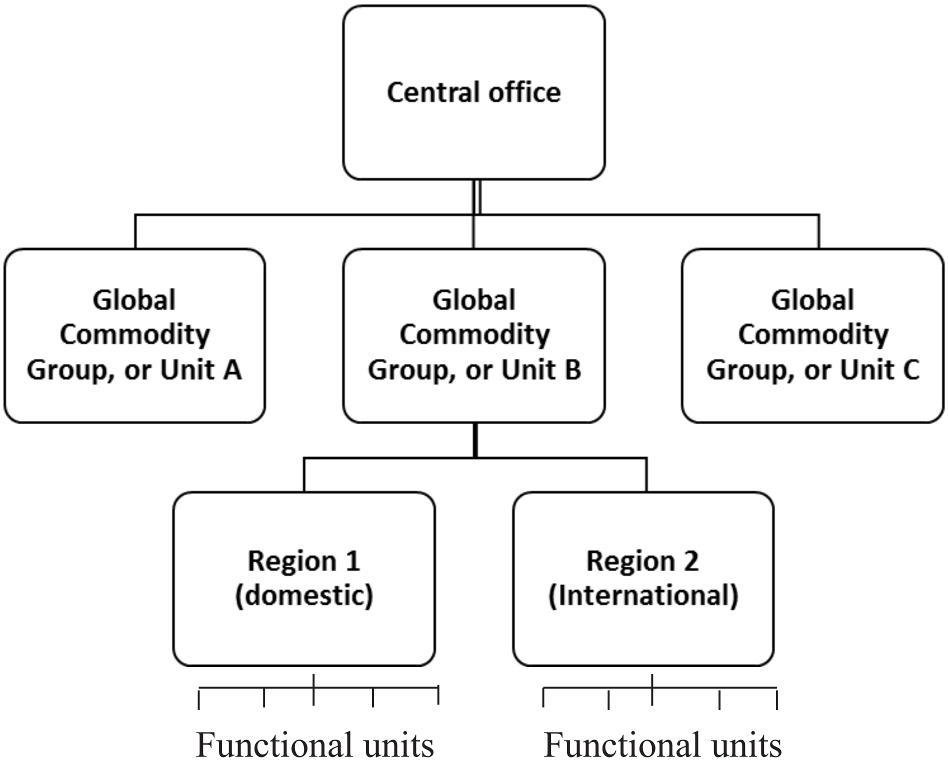

Fig. 6.5. Global Commodity Divisional Structure

In the classical *global matrix structure*, horizontal differentiation is performed in two dimensions: by product subdivision and by geographical regions. (see Fig. 6.6). Its content is that the product units and geographical regions of the firm should share responsibility for operational decisions on a specific product. This implies that a global matrix structure has a dual responsibility: each manager is subordinate to two hierarchies (divisional and territorial) and has two leaders (divisional and territorial respectively).

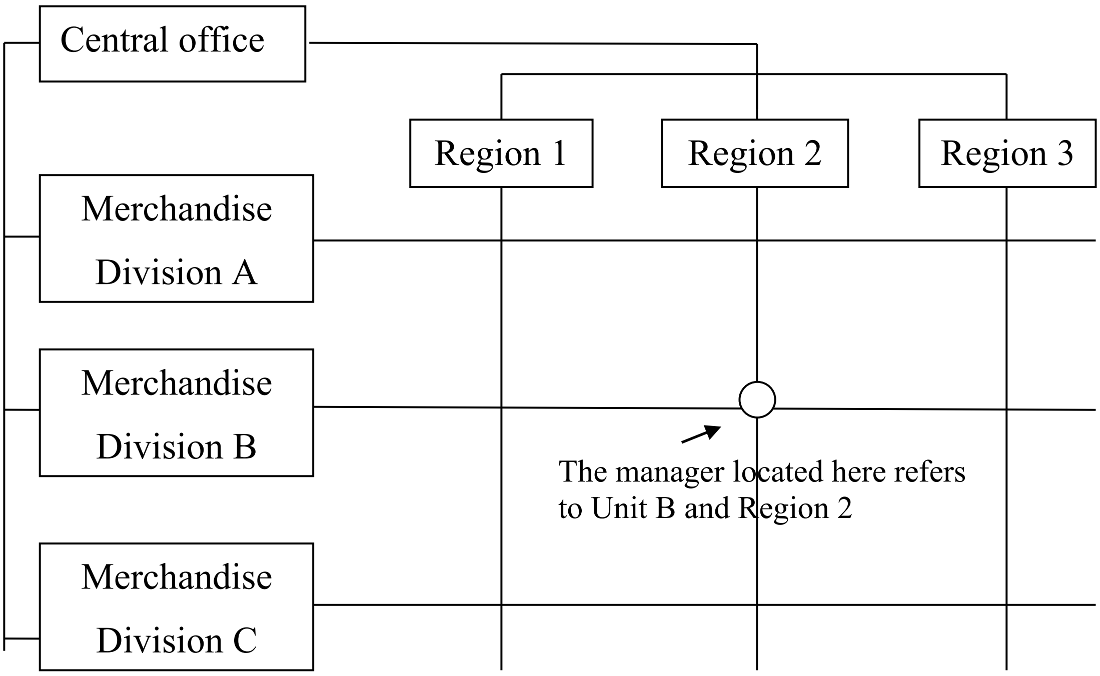

Fig. 6.6. Global matrix structure

In practice, the matrix is often cumbersome and overly bureaucratic. The double hierarchical structure often gives rise to continuous conflicts and power struggles between territorial and commodity units.

6.2. Control systems and incentives in the organization

Transnational firms use four main types of control systems:

- personal control;
- bureaucratic.
- control of results;
- cultural control.

Most firms use systems of all four types, but relative emphasis changes depending on the firm's strategy.

Personal control - control through personal contact with subordinates. Such control is more widespread in small firms, where it is manifested in the direct monitoring of employees' actions.

Bureaucratic control is exercised through a system of rules and procedures governing the operations of the unit (the most important tools are the budget and investment rules).

Outcome control - checking the extent to which the unit's goals are met (profitability, productivity, growth, market share and quality). If targets are met or exceeded, unit managers are rewarded. Otherwise, top executives come in to find out why this happened and take the necessary corrective action.

Cultural control is carried out where employees fully agree the norms and values of the firm (workers independently try to control their own behavior, which reduces the need for direct supervision of them). For example, *McDonald`s* is actively promoting its organizational norms and values, treating its franchisees and suppliers as partners and emphasizing its long-term commitment to them.

Along with the control systems, international firms are actively using the incentive system.

Incentives are a means of rewarding employees for good behavior. Many workers have incentives in the form of the opportunity to receive an annual award. Incentives are usually closely correlated with controlling outcomes. For example, setting profitability targets can be used to further measure unit performance. In order to create positive incentives for workers to exceed their targets, they may be allocated a part of the profits received over the planned results.

It is worth noting that there is a regular relationship between the costs of control, the ambiguity of the company performance, the interdependence of the units and the strategy (see Table 6.1).

In firms using a localization strategy, each national operation is an independent enterprise and can be judged on its successes, meaning the cost of control will be low here. The level of ambiguity of the results here is also low. In an international firm, the level of interdependence between divisions is higher because integration is required to facilitate the transfer of key competences and skills. In addition, since the success of a foreign enterprise depends in part on the quality of the competences transferred to it from the head office, the results may be ambiguous.

Table 6.1

Interdependence, ambiguity of results of work and costs of control for 4 basic strategies of international business

Strategy	**Interconnectivity**	**Uncertainty Results**	**Control costs**
Localization	Low	Low	Low
International	Moderate	Moderate	Moderate
Global	High	High	High
Transnational	Very High	Very High	Very High

In firms using a global standardization strategy, many activities are interdependent in order to get savings from local benefits and from the effects of the experience curve. In addition, the levels of interdependence and ambiguity are high.

However, the highest level of ambiguity of results is found in transnational firms. Transnational firms suffer from the same problems of ambiguity as global companies. As they focus on multilateral transfer of key competences, they also suffer from the same problems as international firms.

Case 6.2.
«Culture and Incentives at Lincoln Electric»

Lincoln Electric is one of the world's leading manufacturers of arc welding equipment. Lincoln's success, in general, lies in the exceptionally high productivity of a solid organizational culture and remuneration system built on a piece-rate pay system. Lincoln's organizational culture originates from Jace Lincoln, who in 1907 came to work for a company that was founded several years earlier by his brother. Lincoln respected the abilities of each individual and was convinced that with the right motivation, even ordinary people can achieve high results in the work. He emphasized that Lincoln should be a meritocracy where everyone is rewarded for their individual efforts. Lincoln broke down communication barriers between workers and managers and implemented an open door policy. He had the same attitude with everyone who worked for the company: for example, everyone used the same dining room, there were no special places for managers at the parking lot, etc. Lincoln also believed that any benefits of growth should *be shared with buyers - by lowering prices, with workers - by raising wages and by shareholders - by increasing dividends.*

The organizational culture, which grew out of James Lincoln's principles, was reinforced by the incentive system adopted by the company. Manufacturers were paid a basic salary plus a surcharge proportional to the number of units they produced. The part-time remuneration system allowed workers to work at a normal pace while receiving remuneration equivalent to the average wages of producers in the region. Workers are responsible for the quality of their products and must remedy any defects identified by quality inspectors before the products are included in the calculation of the piecework remuneration. From 1934, producers began to receive bonuses that depended on the rating of personal merit. Ratings are determined on the basis of objective criteria (such as the quantity and quality of products manufactured) and subjective criteria (such as the employee's attitude to cooperation and its reliability). These systems provided incentives to Lincoln workers for hard work and the introduction of innovations that helped increase productivity, thereby increasing their wages. Lincoln plant workers could receive a base salary that often exceeded the average wage in the region by more than 50%, and in addition bonuses that, in the best years, were equal to several months' salary. Despite such high levels of material rewards, Lincoln has a lower cost structure than its competitors due to the high productivity of its workers.

Although the organizational culture and incentive system described above are successfully operating in the United States, where they fully correspond to the individualistic culture of that country, they are not easily rooted in foreign affiliates. In the 1980s and early 1990s. Lincoln aggressively expanded into Europe and Latin America, buying local welding equipment businesses there. Lincoln left former executives at these businesses, believing they knew better about the local environment than the Americans. However, local managers had little understanding of Lincoln's organizational culture and could not or did not want to instill it in their businesses, which had long developed their own organizational cultures. However, Lincoln has ordered local managers to implement an incentive system that is acquired by the company. However, the implementation process often encountered legal and cultural obstacles.

In many countries, the piecework remuneration system was viewed as negative, forcing workers to work with maximum intensity. In Germany, where Lincoln acquired one company, such a system is prohibited by law. In Brazil, premiums paid for more than two years are being prosecuted! In many other countries, both managers and workers opposed the piecework remuneration system. Lincoln found that many European workers valued extra vacation time higher than extra income and were not ready to work as intensively as their American counterparts. Many of the businesses acquired were trade unions, which were actively opposed to part-time pay. As a result, Lincoln was not able to achieve the same high productivity as in the US, and as a result of its *overseas expansion, the overall performance of the company decreased*

***Source**: Hill C. International Business. [8th ed.] / C. Hill. - St. Petersburg: Peter, 2013. - P. 455-456.*

6.3. Relationship of organizational structure and control system and the strategy of an international firm

Companies using a localization strategy seek to take local features into account. They typically work with global territorial entities where operational decision-making is decentralized and delegated to functionally autonomous national affiliates. The need for coordination between units is small. It follows that such firms do not have much need for formal and informal integration mechanisms of different national branches. Lack of interdependence means that the level of ambiguity of results in such enterprises is as low as the costs of control. Therefore, the head office can manage foreign affiliates, relying primarily on results control, bureaucratic control, and deviation management policies (*see Table 6.2*).

Firms implementing international strategy are trying to create value by transferring key competencies from their home country to foreign affiliates. The head office here usually has centralized control over the source of a firm's core competencies, which are typically in marketing or research functions.

Table 6.2.

Synthesis of strategy, structure and control system

STRATEGY				
Structure and control	**Localiza-tion**	**Interna-tional**	**Global standarti-zation**	**Transna-tional**
Vertical differentiation	Decentralized	Key competences are more centralized	Partial centralization	The combination of centralization and decentralization
Horizontal differentiation	Global territorial structure	Global product units	Global product units	The informal matrix
Need for coordination	Low	Moderate	High	Very high
Integrated mechanisms	Missing	A bit	Many	Very many
Unclear results	Low	Moderate	High	Very high
The need for cultural control	Low	Moderate	High	Very high

All other operational decisions are decentralized. Such firms have a moderate need for coordination due to the need to transfer key competencies. Therefore, although these firms use a number of integrating mechanisms, they are usually small. The relatively low level of interdependence is manifested in the relatively low ambiguity of the results. Such firms usually apply results control, bureaucratic control. The need for a common organizational culture and shared processes is small.

In turn, firms using a global standardization strategy focus on reaping local benefits and saving on the effects of the experience curve. To coordinate a globally dispersed network of activities, the head offices of these firms typically retain control over most operational units (higher centralization). The need to coordinate the various stages of the globally dispersed value chain leads to a high need for integration. The relationships that are formed can create considerable ambiguity in performance. As a result, there is a need to create a strong organizational culture.

Finally, firms that embody a transnational strategy focus their efforts on simultaneously saving local benefits and the effects of the experience curve. They may have matrix structures. The need to coordinate the elements of the globally dispersed value chain and to transfer key competencies necessitates the centralization of some operational decisions (in particular production and research). However, the need to respond to local circumstances requires the decentralization of other operational decisions in national branches (in particular marketing). Here, the need for coordination is high, which is to apply formal and informal integrating mechanisms. The high degree of interdependence of the units in such integration can lead to ambiguity of results, which requires high control costs. To reduce them, these firms must produce a strong culture.

Case 6.3.
«Decades of organizational change at Unilever»

Unilever, one of the oldest transnational companies in the world, manufactures food, detergents and personal care products. The company has an annual revenue of $ 550 billion, and its products can be found in almost every country in the world. Detergents, which account for about 25% of the company's revenue, include a well-known brand like Omo, which is sold in more than 50 countries. Personal hygiene products that provide 15% include "CalvinKlein" cosmetics, "Pepsodent" toothpaste, "Faberge" hair care products and "Vaseline" skin lotions. Foods that provide 60% of sales include margarine (Unilever's market share in this product exceeds 70% in most countries), tea, ice cream, frozen foods and pastries.

Unilever has traditionally had a decentralized structure. Branches of the company in each major national market were responsible for the production, marketing and distribution in that market of all their products. For example, in Western Europe, the company had 17 branches in the early 1970s, each operating in its national market. Each branch was an independent profit center and was responsible for the results of its work. Decentralization was seen as a source of strength for the company. This structure allowed local managers to match product offerings and marketing strategies to local tastes and preferences, and adapt marketing and distribution *strategies to retail systems. To implement the localization strategy, Unilever recruited local managers to manage its overseas branches: a branch in the United States (Lever Brothers) was run by Americans, an Indian branch by Indians, etc.*

By the mid-1990s, such a decentralized structure no longer matched the rapidly changing competitive environment. Unilever's global competitors, including Switzerland's Nestle, America's Procter & Gamble, have performed more successfully than Unilever on many fronts: creating global brands, reducing the cost structure by consolidating manufacturing operations in several optimally selected locations, and launching a new product simultaneously across multiple national markets. Unilever's decentralized structure has held back efforts to build global or regional brands. It also envisaged duplication of many operations, especially manufacturing operations, reducing economies of scale and high cost structure. Unilever also found that it was inferior to rivals in the speed of launching new products. For example, while in Europe Nestle and Procter & Gamble were rapidly moving to launch their products in the pan European market, Unilever spent 4-5 years trying to "convince" them to adopt a new product across all of its 17 European subsidiaries.

Unilever started making changes in the mid-1990s. In 1996, it introduced a new structure based on the use of regional business groups. Each business group consisted of several divisions, each dealing with a specific category of goods. Thus, in the European business group, one unit was engaged in detergents, the other in ice cream, the *third in frozen products, etc. These groups and units coordinated the work of national affiliates in their regions in order to reduce operating costs and speed up the process of developing and launching new products.*

For example, Lever Europe Group was created to consolidate the company's efforts in the detergent market. All 17 European subsidiaries became directly affiliated with Lever Europe. Using its power, Lever Europe has concentrated the production of detergents in Europe at several major businesses to reduce costs and speed up the launch of new products. The use of the new approach has had a hidden benefit: 17 branches have lost their autonomy in their traditional markets in exchange for being able to assist in the development and implementation of a unified pan European strategy. The number of European soap factories has dropped from 10 to 2, and some new products have been launched at only one enterprise. The volume and packaging of the goods have been adjusted to reduce procurement costs and to ensure the unification of pan European advertising. Unilever estimates that these measures saved up to $ 400 million a year in the production and sale of detergents in Europe.

However, in 2000, Unilever found that it was still lagging behind its competitors and made another reorganization. This time its goal was to reduce the number of brands that sold Unilever in global and regional markets from 1600 to 400. To support this strategy, the company planned to reduce the number of manufacturing enterprises from 380 to 280 by 2004. The company also changed its internal organization and left *only two commodity units - food and personal care products. In each such division, there are several regional business groups focused on the development, production and marketing of food or personal care products in the region. For example, Unilever Bestfoods Europe, which has its headquarters in Rotterdam, focused on selling food brands in Western and Eastern Europe, Unilever Home and Personal Care Europe focused on selling personal care products. A similar structure can be found in North America, Latin America and Asia. In particular, Bestfoods North America has the same structure as Bestfoods Europe, but given local traditions, many food brands sold by Unilever in North America are different from those sold in Europe.*

***Source**: Hill C. International Business. [8th ed.] / C. Hill. - St. Petersburg: Peter, 2013. - P. 467-468.*

CONTROL QUESTIONS:

1. Why was the decentralized structure of Unilever justified in the 1950s and 1970s? Why did this structure begin to cause problems for companies in the 1980s? What was the organizational structure of Unilever during this period?
2. What organizational structure did Unilever begin to use since the early 2000s?

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CHAPTER 7

METHODS OF COMPANY'S ENTRANCE TO THE FOREIGN MARKETS

7.1. Ways to enter the company in foreign markets

7.2. Choosing a method for international expansion of the company

Case 7.1.
«Tesco International Growth Strategy»

Tesco is the largest online food retailer. In the UK, where its market share is 20%, it is believed that a firm's strong position in the local market is driven by its knowledge and skills in areas such as marketing, siting, logistics, inventory management and selling its own branded products. By the early 1990s, these competencies had already secured the company a leading position in the UK. The company generated steady flows of funds and its top management had to decide how to use those funds in the best way. One of the strategies proposed by the managers involved foreign expansion. After analyzing international markets, they came to the conclusion that the best opportunities were not in long-established markets such as North American and Western European, where there were strong local competitors, but in emerging markets of Eastern Europe and Asia, with few competitors, but large growth potential.

Tesco international debut took place in 1994 in Hungary, where it acquired 51% of Global, a state-owned network of 43 grocery stores. In 2004, Tesco was already a leader in the Hungarian market, with 60 stores and a market share of 14%. In 1995 Tesso purchased 31 stores in Poland in Stavia, the following year - 13 stores in

Kmart in the Czech Republic and Slovakia, and a year later entered the Irish market.

The history of Tesco Asian expansion began in 1998 in Thailand, where the company acquired a 75% stake in Lotus, a local network of 13 grocery stores. Having won this bridgehead, Tesco has increased the number of its stores in Thailand to 64 by 2004. In 1999, the company appeared in South Korea, where in partnership with Samsung, it opened a new supermarket chain. Then there was the invasion of Taiwan in 2000. To Malaysia in 2002 To China In 2004, China entered the market after three years of probing the situation and engaging in discussions with potential partners. The Chinese market has attracted Tesco, like many other Western companies, in terms of volume and rapid growth. In the end, Tesco set up on a parity basis a joint venture with the Hymall hypermarket chain controlled by Taiwanese group Ting Hsin, which has been operating in China for six years. Currently, Hymall has 25 stores in China and plans to open 10 more next year. Ting Hsin itself is a sufficiently capitalized venture capable of making Tesco investments, which should reduce Tesco job risks in China.

As a result of these efforts, in 2007, Tesco had more than 800 stores outside the UK, which brought it £ 7.6 billion in revenue per year. The increase in the number of foreign stores has helped Tesco to take the fourth place among the world's largest food retailers after Wal-Mart, French Carrefour and Dutch Ahold. However, Tesco is more successfully operating in international markets among them. In 2005, all its foreign-owned enterprises made a profit.

The success of Tesco is explained by its managers for several reasons. First, the company pays a lot of attention to transferring its key retail competencies to new businesses. At the same time, it does not draw on an army of expatriate managers to manage overseas operations, preferring to hire local managers and provide them with the help of several experienced UK consultants. Secondly, the company is convinced that its partnership strategy in Asia is of great value. Tesco has been able to establish relationships with reliable companies that are well aware of foreign markets but do not have the financial capabilities of Tesco and do not have modern retail technology. As a result, Tesco and its partners brought their valuable assets into joint ventures, which increased the likelihood of future success. As the new JVs got on their feet, Tesco increased their share of the property. In particular, by 2011 Tesco planned to increase up to 99% of its share in the network of South Korean hypermarkets Homeplus. When creating this JV, Tesco share was 51%. Third, the company focuses on markets with good growth potential, where there are no strong local competitors, which creates favorable conditions for Tesco to expand.

In March 2006, Tesco took its overseas expansion strategy to a new level, announcing its intention to penetrate the US market overflowing with competitors, using its new Tesco Express concept, Tesco Express stores currently operating in five countries have relatively small sizes are located in housing estates and offer a wide range of healthy foods and instant foods. Initially, Tesco plans to start work on the West Coast, for which it is planning to invest £ 250 million a year. The company expects to *reach break-even in the second year of operation. While some have questioned the reasonableness of such a decision, many experts have noted that British Tesco has consistently demonstrated better performance than the Wal-Mart-owned ASDA network. Tesco Express is also new to the US.*

***Source**: Hill C. International Business. [8th ed.] / C. Hill. - St. Petersburg: Peter, 2013. - C. 476-477.*

Glossary:

***Export** is the sale of products made in one's own country for the purpose of subsequent use or resale in the territory of other countries;*

***Imports** are purchases of products made in other countries for the purpose of their subsequent use or resale in their country.*

***A license agreement** is an agreement whereby a licensee grants the right to intangible assets to another enterprise (licensee) for a fixed period and in exchange for royalties (royalties) received from the licensee.*

***A joint venture** is a firm owned simultaneously by two or more companies from different countries.*

***Franchising** is a special form of licensing whereby a franchisee authorizes another franchisee to use their manufacturing technology, brand, trademark and logo in exchange for royalties. .*

7.1. Ways to enter the company in foreign markets

Companies can use 6 main ways to enter foreign markets:

1) export;
2) turnkey finished projects delivery;
3) licensing;
4) franchising;
5) creation of joint ventures (JVs) with a company from a foreign country;
6) establishing its own subsidiary in a foreign country;

1. ***Export***. Many industrial companies begin their global expansion as exporters and only later shift to another way of serving the foreign market. Participation in export-import transactions is often the only choice for a small firm seeking to enter the international market. It is also an option for larger companies looking to break into the international market with minimal investment. As a rule, export-import is only a transitional strategy, the first step in engaging in international business.

Advantages:

- first, it avoids the often significant costs of generating capacity abroad;

- second, exports can help the firm to save on local benefits and the effects of the experience curve. By manufacturing the product centrally and exporting it to other national markets, the firm can benefit significantly from the economies of scale at the expense of its global sales volume.

Disadvantages:

- first, exporting from a country of origin may be disadvantageous if in other countries the product of the firm can be manufactured at a lower cost (for example, many US electronic firms have relocated their production to East Asia due to low-skilled labor in the region, then they exported their products made in this region to different countries of the world, including the USA);

- secondly, high transportation costs can make exports economically disadvantageous, especially the export of products that are transported in large volumes (for example, many multinational chemical companies produce their chemicals regionally, serving several countries with the same enterprise);
- third, the duty may lead to an excessive rise in exports;
- fourth, the problem arises when the firm transfers marketing, sales and customer service functions in each country where it operates to another company that works with the products of several competing firms. To overcome this problem, firms usually set up branches in other countries.

2. *Turnkey projects*. Here, the contractor fulfills all contractual requirements of a foreign customer, including staff training. Upon completion of all contract work, the customer receives a "key" from the plant, which is ready to work at full capacity. This approach means exporting the process to other countries. Turnkey projects are most typical of the chemical, pharmaceutical, refining and metallurgical industries, since such projects involve the use of sophisticated and expensive manufacturing technologies.

Advantages:

- such a strategy is useful where the laws of a foreign country restrict foreign direct investment. Moreover, it is less risky than direct investment.

Particularly advantageous to contractors without whom it would not be possible.

Disadvantages:

- first, companies that turnkey projects in a foreign country do not have long-term interests in it;
- secondly, a firm that submits a turnkey project to a foreign company may inadvertently create a competitor (for example, many Western firms selling oil refining technologies to companies from Saudi Arabia, Kuwait, are now forced to compete with them in world markets);
- thirdly, if the technological process is a source of competitive advantage of the firm, the sale of this technology in the framework of a turnkey project will be equivalent to the sale of competitive advantage to potential competitors.

3. *Licensing*. A *license agreement* is an agreement whereby a licensor grants the right to intangible assets to another enterprise (licensee) for a fixed period and in exchange for royalties received from the licensee.

Advantages:

- the firm does not have to bear the costs and risks associated with opening a new market (very profitable for those firms that do not have the capital to conduct operations abroad). Often used when a firm wants to operate in a foreign market but cannot afford it because of restrictions on foreign investment;
- is often used when the firm owns intangible assets that may have a commercial application but do not want to master the provisions themselves.

Disadvantages:

- first, it does not provide the firm rigid control over production and marketing, as well as the strategy needed to save on local benefits and the effects of the experience curve;

- second, competition in the global market may require the firm to coordinate strategic efforts in different countries with the use of profits made in one country to repel competitors' attacks in another;

- third, the risk of providing technological know-how to foreign companies (problem solving - cross-licensing)

4. *Franchising*. This is a special form of licensing whereby a franchisor not only sells intangible assets (mostly trademarks) to his franchisee, but requires the franchisee to strictly adhere to the franchisor's business rules. Licensing is mainly used by manufacturing firms, whereas franchising is generally used by service firms.

Advantages:

- the company eliminates many costs and risks of independent entry into the foreign market;

Disadvantages:

- high quality control is complicated by distance (solving the problem by setting up a subsidiary in each country where the company intends to operate).

Often, franchising is used in retail, diner, hospitality, and is widely used internationally (such as *McDonald's* or the *Holiday Inn* hotel chain). The franchise agreement usually requires a down payment and then a percentage of the profit. In return, the privileged corporation will provide the necessary assistance, and in some cases may require the purchase of goods from certain manufacturers to maintain the quality level.

Also, a large number of filling stations operate on the basis of franchise agreements. The owners of several gas stations enter into a franchise agreement with large corporations - *British Petroleum, Shell* or the like - to use their trademark at their plants and undertake certain commitments about the quality of gasoline available at filling stations. Gas stations are colored in the colors of a large, consumer-friendly company that provides them with an influx of customers, and for a company that has allowed the use of its brand, such a contract means a kind of advertising and geographical growth.

5. ***A joint venture*** is a firm owned simultaneously by two or more companies from different countries. This business is usually located in the home country of one of the partners.

Advantages:

- first, the company benefits from its partner's knowledge of the conditions of competition, culture, language, political and economic system of a foreign country;
- secondly, when the development costs or risks of developing a foreign market are high, a company may benefit by sharing these costs / risks with a local partner;
- thirdly, in many countries, political considerations make JV the only real way to enter the local market.

Disadvantages:

- first, the company creating the joint venture risks losing control of the technology transmitted to the partner;
- secondly, the JV does not provide a firm with strict control over its subsidiaries, which may be required to save on local benefits and the effects of the experience curve;
- thirdly, a joint venture agreement may create conflicts and struggle for control between investor companies if their goals and objectives change.

An example of such a joint venture is CDMA UKRAINE, a CDMA telecom operator that was established in November 1996 as a joint Ukrainian-American enterprise.

6. *Own subsidiaries*. When this type of international strategy is applied, the organization - in this case it will be a transnational company (TNC) - creates a foreign company that is fully owned and controlled by it (the company owns 100% of all shares). It can be created in two ways: either by starting a new business from scratch, or by purchasing an existing local company and using it to promote their products.

An example of such a subsidiary would be the *Svitoch* confectionery plant owned by *Nestle Corporation*. A subsidiary may be left empty - in this case a new enterprise is formed in a foreign country, or it may be created as a result of the partial or total takeover of foreign enterprises.

Advantages:

- first, when a company's competitive advantage is based on technology, the use of its own subsidiary is often the most acceptable way of entering the foreign market because it reduces the risk of losing control of the technology;

- secondly, its own subsidiary provides the company with the strict control over operations in other countries, which is necessary for the implementation of a global coordination strategy, ie the use of profits made in one country to counteract the attacks of competitors from another;

- third, a subsidiary may be needed if the company is trying to save on local benefits and the effects of experience.

Disadvantages:

- creating your own subsidiary is usually the most expensive way of servicing foreign markets in terms of capital investment.

7.2. Choosing a method for international expansion of the company

The choice of the optimum market entry depends on the company's strategy. When technological know-how is a key competence of the company, then setting up your own subsidiary will be most appropriate as it provides the best control over the technology. When managerial know-how determines key competence, then overseas franchises controlled by a joint venture will be the best option. After all, when a company implements a global standardization strategy or a transnational strategy, the need to tightly control operations to save on local benefits and the effects of the experience curve suggests that establishing a subsidiary is the best way to market.

When creating its own subsidiary in a foreign country, the company must decide whether it will build a new company from scratch or whether it will buy an active company in the target market.

A number of arguments can be made both in favor of setting up an enterprise from scratch and absorbing it as international strategies.

Setting up an enterprise from scratch:

- may be a cheaper form of direct penetration;
- may be more appropriate for small firms with limited financial resources;

• advisable when there is no desire to inherit the problems of an existing national firm (factory, plants, etc.);

• can be designed to incorporate state-of-the-art production methods and technologies (sometimes restructuring outdated production technologies is more expensive than setting up a new leading enterprise);

• you can choose a more comfortable place for a new business - you can find a site with minimal cost or in a region where there will be no problems with hiring employees;

• governments in the countries of implementation usually support the creation of an enterprise on an empty site, so subsidies or tax rebates are possible.

Establishing subsidiaries by foreign companies is a fairly common business strategy in today's world. An example of such a strategic solution could be the organization of its own production of assembly machines for printing in Russia, the German concern *Heidelberg* - one of the world's best manufacturers of printing equipment. The concern has placed a project on the creation of a new enterprise from scratch, hoping that its future products will be in demand by Russian printing houses. Another strategy - takeover - was chosen by US corporation *Procter&Gamble* in relation to the well-known German company *Wella*, which produces hair dye and shampoo. *P&G* has made several purchase offers to this company, hoping for such an acquisition to strengthen its position in the field of hair care cosmetics and to use *Wella's* distribution channels.

The main advantage of starting a new venture in a foreign country from scratch is that it gives the company more opportunities to get the type of enterprise that it needs. For example, it is much easier to create an organizational culture from scratch than to change the culture of an acquired enterprise.

Absorption:

- allows quick penetration into the foreign market;
- gives much faster return on used capital;
- may prevent the actions of a competing firm;
- a number of cultural, legal and managerial problems can be avoided by absorbing an existing enterprise;
- as a result of the acquisition, the corporation may partially utilize the company's managerial apparatus, trademarks, steady relationships with suppliers and consumers;
- does not violate the existing competitive relationship in the host country.

Acquisitions can be made quickly, allowing the company to outperform its global competitors and generate revenue and profits that are known in advance. Acquisitions can be unsuccessful if the buyer firm pays for the purchase, if the cultures of the buyer firm and the buyer firm do not fit together, if conflicts between the managers of the two firms begin after the acquisition and if the operations of the buyer firm and the firm bought by it cannot be integrated.

Case 7.2.
«JCB in India»

In 1979, JCB, a major British manufacturer of construction machinery, established a joint venture with Escors, an Indian engineering conglomerate, to produce forklifts for sale in India. Escors share in this joint venture was 60% and

JCB share was 40%. This JV was the first in the history of JCB to traditionally export up to 2/3 of its products made in the UK to markets in other countries. However, the high customs tariffs made it very difficult to export directly to India.

JCB would probably prefer to work in India on its own, but at that time local laws required foreign investors to set up JV with local firms. However, in any case, JCB realized that the Indian construction equipment market was on the verge of rapid growth and could become very large in the future. JCB managers have decided that it would be more advantageous to win a small foothold in this country and thus gain advantages over foreign competitors than to passively wait for the local growth potential to be realized.

Twenty years ago, JV sold around 2,000 loaders in India and had a local market share of up to 80%. Moreover, after several years of state deregulation policy, the Indian economy began to grow rapidly. However, JCB realized that the JV was limiting its ability to expand. On the one hand, JCB's large-scale success was based on the use of advanced production technologies and continuous product improvement, but on the other hand, the company did not want to transfer its know-how to a JV where it was the main owner and, as a consequence, did not have sufficient control. Least of all, JCB wanted these valuable technologies to be transferred from the JV to Escors, which was one of the largest tractor manufacturers in India and could well become a direct competitor to JCB in the future. In addition, JCB did not intend to make the investments in India that were needed to take the JV to the next level without guaranteeing long-

term benefits from these contributions. In 1999, JCB seized the opportunity resulting from changes in Indian law to review the terms of the Escors deal and acquired 20% of its partner's share, thereby gaining control of the JV. In 2002, JCB brought this process to a logical conclusion and, taking advantage of further liberalization of Indian law, acquired Escors a stake in the JV that remained, thus turning the JV into a wholly owned subsidiary.

At about the same time, JCB made investments in its US and Brazilian plants.

Having gained complete control of the past JV, JCB increased its investment in India in early 2005 and began building a second plant to serve the fast-growing Indian market. At the same time, JCB described plans to build its own factory in China to service the Chinese market. India and China, the two most populous countries in the world, were rapidly developing and experiencing a construction boom, which is why JCB, ranked 5th among the world's largest manufacturers of construction equipment at the time, sought to expand its international presence to keep up with its competitors. These were Caterpillar, Komatsu and Volvo, which aggressively penetrated the markets. In 2008, there were signs that JCB's foreign investment was beginning to make a profit. The product line expanded from 120 vehicles in 2001 to more than 250. JCB had 47 dealers and about 275 sales centers in India. The company's market share in this country was 55%. JCB's sales were close to 1.8 billion, with a record high of 187 million, and the company rose to 4th place, increasing its market share to 10%.

Source*: Hill C. International Business. [8th ed.] / C. Hill. - St. Petersburg: Peter, 2013. - P. 507-509.*

CONTROL QUESTIONS:

1. What are your main ways of entering the company to foreign markets?
2. What are the main advantages of export as a way of international?
3. What is the difference between a joint venture and a subsidiary?
4. What do you know about the disadvantages of franchising as a way of international expansion?
5. What are your well-known arguments for establishing a subsidiary from scratch?
6. What determines the choice of the best way to enter the company in the foreign market?
7. What is the best way for a company to enter international markets if management competence is the key competence?
8. What is the best way to penetrate a foreign market if a company adheres to a transnational strategy? Justify the answer.
9. What are your alternative options for setting up your own subsidiary abroad?
10. What are the main benefits of setting up a subsidiary from nothing?
11. Why has Tesco's growth strategy been effective? Justify the answer.
12. Why in 1979 did the British company JCB decide to set up a JV with the Indian engineering conglomerate Escors?

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CHAPTER 8

INTERNAL AND EXTERNAL COMPONENTS OF INTERNATIONAL BUSINESS COMPANY FORMATION

8.1. Production strategies in international business

8.2. Outsourcing of international companies

8.3. Management of the global supply system

Case 8.1.
«Hewlett-Packard in Singapore»

In the late 1960s, Hewlett-Packard actively sought the best place in Asia for the manufacture of electronic components, the production of which required the use of labor-intensive processes. The company reviewed several countries and eventually settled in Singapore, opening its first plant there in 1970. Although the cost of labor in Singapore was not the lowest in the region, it was still much lower than in North America. In addition, the location of Singapore had several important advantages that could not be found in many other Asian countries. The level of education of the local workforce was high. English was widespread in the country. The government in Singapore was stable and showed a strong commitment to economic development, with the city-state having one of the best infrastructures in the region, including good communication and transport systems, and a rapidly growing industry and commercial base. The HP still managed to negotiate with the Singaporean authorities about preferential tax rates, low tariffs and subsidies.

Initially, the plant produced only basic components. The combination of low labor costs and a favorable tax regime helped make this plant profitable quickly. In 1973, HP transferred production of one of the most basic *models of pocket calculators from the United States to Singapore. The purpose of tranferring was to reduce production costs, and the Singapore plant was able to achieve it quickly. Having become convinced of the plant's ability to produce complex products, not just basic components, HP's management moved to Singapore for several years to manufacture other products, including computer keyboards, electronic displays and integrated circuits. However, all of these products were designed and originally manufactured in the United States.*

The status of the plant changed in the early 1980s, when HP began a broad campaign to improve quality and reduce costs. HP transferred production of its HP 41C calculator to Singapore. The Singapore plant was tasked with significantly reducing production costs. But plant managers argued that cost reductions were only possible if they were allowed to redesign the product so as to reduce the overall cost of manufacturing it. HP's management agreed and 20 Singapore plant engineers were seconded to the US for one year to study of design of special integrated circuits. Having acquired the necessary knowledge, they returned to Singapore and began redesigning the HP 41C.

As a result, considerable success was achieved. By changing the design of the calculator it was possible to reduce the production cost by 50%. Using its design skills, the Singapore plant has begun upgrading its other products. HP's top executives were so impressed with the success of the plant that in 1983 they moved to Singapore to manufacture their entire line of calculators. In 1984, the manufacture of inkjet printers was partially relocated *to Singapore, and in 1986 the manufacture of keyboards. In both cases, the plant redesigned the goods and sometimes achieved a 30% reduction in production costs. However, the original design of these products was still carried out in the United States.*

The Singapore plant began to play a more important role in the late 1980s and early 1990s in the HP business, in the design and production of inkjet printers. In 1990, the plant was tasked with redesigning an inkjet printer for the Japanese market. Although the initial version of the upgraded printer failed in the market, plant managers actively sought the right to make a second attempt and in 1991 received the redesign task for the Japanese DeskJet 505 printer market. This time the upgraded product was a success and sold well in Japan. Inspired by this success, the plant began upgrading other HP products. Today, it is considered as the "Leading Enterprise" of HP's global network and is engaged not only in the production but also in the design of a whole family of desktop inkjet printers for the Asian market.

Because of all this, many international firms are abandoning past systems in which their foreign affairs were viewed simply as low-cost enterprises and are beginning to treat them as their globally dispersed "centers of excellence". In the new model, foreign factories are taking the lead in designing and manufacturing goods for important national and regional markets, or even for the global market. The development of such centers of excellence is in line with the concept of a transnational strategy. Central to the transnational strategy is the notion of global teaching - that is, *knowledge is not concentrated only on domestic firms and can be located in its foreign branches. Foreign companies, which over time develop their capabilities, create valuable knowledge that can benefit the entire company.*

Managers of international firms need to remember that foreign companies can develop their capabilities, which can bring huge strategic benefits to the firm. Instead of considering foreign enterprises just as factories with a system in which low-skilled workers produce low-cost goods, managers should see potential refinement centers in these factories and encourage local managers to develop their capabilities and thus strengthen their strategic position in the corporation.

This process really implies that after a foreign plant has got up and accumulated valuable skills, it is unreasonable to move production to another location simply because some basic factor, such as wages, has changed. HP maintained its business in Singapore and did not relocate to a place where wage rates were much lower (such as in Vietnam), as it was understood that the Singapore plant had accumulated valuable knowledge and skills, fully offsetting higher wage costs. Thus, in addressing the issue of capacity allocation, the manager of an international firm must take into account the valuable skills that can be accumulated in different countries and the impact of these skills on factors such as labor productivity and product design.

***Source**: Hill C. International Business. [8th ed.] / C. Hill. - St. Petersburg: Peter, 2013. - P. 558-560.*

Glossary:

Production *- a set of activities that are performed when creating a product.*

Logistics *is an activity related to the control of the movement of tangible goods along the value chain - from the purchase of input materials to the production and distribution of finished products.*

Outsourcing *is the transfer, by agreement, of certain types or functions of production, business activity to another company operating in the desired field.*

8.1 Production strategies in international business

The value chain includes the following activities: *(1) production - (2) marketing - (3) logistics - (4) human resource management.*

Production - a set of activities that are performed when creating a product.

Logistics is an activity related to the control of the movement of tangible goods along the value chain - from the purchase of input materials to the production and distribution of finished products. Manufacturing and logistics are closely interconnected because the firm's ability to produce efficiently depends on the timely delivery of high-quality inputs - which is what the logistics function is responsible for.

At an international firm, manufacturing and logistics functions have several important strategic goals:

- cost reduction;

- improving the quality of goods by eliminating defects in the supply chain and in the production process.

The most important decision to be made by an international firm is to choose the place of production that would minimize costs and improve the quality of the goods. **There are several factors to consider for a company that is going to open production abroad (choose the optimal production location):**

- ***country-specific factors*** include the cost of factors of production, political economy and national culture, as well as the externalities of the place;

- ***technological factors***; When choosing a location, *3 characteristics of production technology are of interest*: *the level of fixed costs* (a single-site plant is justified if it receives high investments - for example, semiconductor chips - more than $ 1 billion), *the minimum effective scale of production* is the volume of production at which there is significant increase in factory economy from scale effect (the more the minimum effective scale of production of the factory in comparison with the total global demand, the stronger will be the arguments in favor of concentration single site or vice versa (for example, the minimum effective production scale for a PC manufacturing plant is about 250,000 units per year, while global demand is over 35 million units per year); *flexibility of technology* - involves shortening the time to reconfigure sophisticated equipment; intensification of the use of machine tools by improving the work schedule; improving quality control at all stages of the manufacturing process (allowing the production of many different products with specific costs that can only be achieved through mass production of standardized products - *Toyota*);

- ***commodity factors*** - include *the ratio of the value of goods to weight* (medicines and electronic components are expensive but easy, so they can be manufactured in one place and exported worldwide) and *the ability of the goods to meet universal needs* (if universal goods, then a possible concentration of production in optimal location).

Site selection strategies involve either ***concentration*** or ***decentralization of production.***

Table 8.1

Production site selection strategy

	Concentration of production	**Decentralization of production**
Country specific factors		
The differences in political economy	Significant	Minor
The differences in culture	Significant	Minor
The differences in the cost of factors of production	Significant	Minor
Trade barriers	Minor	Significant
The externalities of the place	Important for the industry	Unimportant to the
Exchange rates	Stable	Unstable
Technological factors		
Fixed costs	High	Low
The minimum effective scale	High	Low
Flexible technology	Present	Absent

Continuation the table 8.1

Commodity factors		
Value to weight ratio	High	Low
Satisfies universal needs	Yes	No

The selection should be made taking into account country specific factors, technological factors and commodity factors. *All decisions about choosing a location are a trade-off.*

Foreign factories can develop their capabilities over time, and this can bring great strategic benefits to the firm. Managers should consider overseas factories as potential centers of excellence and facilitate the efforts of local managers to improve the capabilities of their businesses.

8.2. Outsourcing of international companies

For many international firms, the important question is: what components to produce on their own, and what to buy from independent suppliers?

Manufacturing components on its own makes it easier to invest in specialized assets and helps the firm protect its own technology. It can also improve the timing of related steps in the value chain (vertical integration). In addition, domestic production makes sense when the firm has efficient and low-cost technology.

Purchasing components from third-party suppliers increases the strategic flexibility of the firm and helps to avoid organizational problems associated with large-scale vertical integration. Outsourcing can also be used as one of the components of a "compensation" policy aimed at obtaining more orders for a firm in a foreign country by outsourcing some production work to that country under a contract.

Sometimes firms try to reap the benefits of vertical integration and avoid organizational problems by forming long-term strategic alliances with key suppliers (for example, an alliance between *Canon* and *Kodak*, *Canon* producing photocopiers to sell to *Kodak enterprises*).

Although alliances with suppliers can bring benefits to the firm with vertical integration without losing the benefits of market relationships, alliances have their disadvantages. A strategic alliance firm may limit its strategic flexibility as a result of making commitments to an alliance partner.

Case 8.2.
«Success programs»

Sitting at the window of his office, located in the Kiev industrial zone on Borshchagovka, Vitaliy Nuzhny, managing director of the IT company Luxoft Ukraine, watches as cranes load metal rolling stock in railway cars. Looking at his possessions, he says that Luxoft is also a big factory, but only for the production of intellectual products.

Indeed, similarity with a large industrial company is present. The company building occupies an entire *quarter - except offices, there is a gym, kitchens, showers, bicycles and parking lots. Monitors hang at all entrances, showing the time before the arrival of minibuses, which regularly bring and take workers. Their total number is 1.8 thousand people. About as much people work, for example, at the large Ukrainian shipbuilding enterprise - the Mykolaiv plant. Only the main product of Luxoft, unlike ships that can be touched, are custom programs (outsourcing). In addition, these programs are designed for very important clients, including banks - Deutsche Bank, UBS, Citybank, car system supplier Harman Becker, energy companies - Alstom, General Electric and Halliburton, as well as Microsoft.*

For many years, three companies have been leading the Ukrainian market in this field - SoftServe, EPAM Systems and Luxoft. The latter is the largest, says Jaroslav Lubynets, chairman of SoftServe's board of directors. Moreover, of the three major Ukrainian developers, only Luxoft and SoftServe are ranked in The 2015 Global Outsourcing 100 by the International Association of Outsourcing Professionals.

Luxoft founder Anatoliy Karachinsky, also president of the Russian IT holding company IBS Group (owns 44.2% of Luxoft shares), said he had the idea to enter the Ukrainian market back in 2002. Ukraine has conquered it as the best "maker" of programmers in the world. “There is a very strong resource base here, so to speak. If resources mean education, brains, talent and desire to work,” he said. He didn't miscalculate - today Luxoft's capitalization has exceeded $ 1.4 billion.

In 2005, Luxoft opens a production office in Kyiv, a year later in Odessa, and then in Dnipro. Currently, *almost 3.9 thousand people from 8,000 employees work in Ukraine. Here is three of the company's six training centers. There are only 1.9 thousand workers in Russia and the rest are scattered in other countries.*

Karachinsky says that the world's largest outsourcing company Luxoft was the first to move the lion's share of its production to the banks of the Dnieper. Prior to the advent of this developer, local firms such as Global Logic were present here. But the luxury was brought by Luxoft, explains Roman Khmil, director of the Brain Basket Foundation. Following Karachinsky's brainchild, other major outsourcers began to place software sites in the country: Russian Artezio, Belarussian EPAM and Intercities, American Service and Softjoum.

In 2013, Luxoft entered the New York Stock Exchange, where more than 50% of its shares are traded today. The market capitalization of the company exceeds $ 1.4 billion. This is more than the Ukrainian agrarian giants such as Kernel and Astarte, the shares of which are also quoted on Western exchanges.

In Ukraine, the influence of the company is such that any negative news from its office can cause almost panic in the market. So, last may, Luxoft announced plans to bring about 500 programmers from Ukraine and Russia to Bulgaria, Poland, Romania due to political risks in the region. The market immediately went gossip about the curtailment of its business in the country. Karachinsky hastened to refute this information. They say that they are not going to leave Ukraine, especially since in the last year 430 new employees have been hired here.

Andriy Kolodyuk, managing partner of AVentures Capital, notes that Luxoft's strength is its strong position in the US and its strong customers. But also the weakness of the developer.

According to Konstiantyn Chernyshov, head of the analytical unit of Russian investment bank Uralsib, Luxoft lacks diversification of its customer base. Two major customers, Deutsche Bank and UBS, bring in 47% of the company's revenue. Breaking the relationship even with one of them will be a disaster. Recently, the Russian roots of Luxoft have become a negative - as Kolodyuk notes, sanctions have now been imposed on firms from Russia around the world. But Nuzhny notes that 51% of the company is in free float on the stock exchange, among the holders - mainly Western investment funds, so it is not necessary to call Luxoft Russian.

However, in the sanctions Khmil sees a positive - he says, they force businessmen from the Russian Federation to more actively supply production to Ukraine.

Some problems for Luxoft also stem from the size that leads to excessive bureaucratic leadership. In professional forums of programmers, the company is accused of being pathetic and that some of the staff spend more time smoking, games and coffee breaks than their own work. The author of one of these posts - Konstiantyn Khomko - advises to look for work in firms with more adequate working conditions and not with such rigid management. Other forum members point out that Luxoft saves on everything, even on toilet paper.

More programmers condemn too intrusive recruiting from company representatives. "There is a feeling in the market that we are sometimes bored with our offers. But we do it not out of harm, "laughs Nuzhny. And it *seriously adds that most professionals want to work at the company because it has gone through more than one crisis and continues to grow. And now it's expensive.*

Staff may become the Achilles heel of the Ukrainian Luxoft business, but not through negative feedback on the forums. The boom in the software development market has led to the depletion of human resources in the country. According to Jaanika Merilo, UVCA's Advisor to the Venture Capital Economics Minister, there is already a shortage of skilled IT professionals in Ukraine. And, as a result, prices for their services are rising. "When we were looking for an Estonian subcontractor company in Ukraine, the cost of the services turned out to be uncompetitive and we had to hire them in the UK," says Merilo. In this situation, according to the adviser, Ukraine will eventually loose leading positions in the outsourcing market.

In this situation, Luxoft and other outsourcers need to move. Illia Kenihshtein, managing partner of Hybrid Capital investment company, is confident that in five to six years, programmers from India and China will learn to write codes no worse than Ukrainians and, because of the lower price, will pick up a piece of cake from domestic companies. "That's why they [IT firms from Ukraine] have to strive to move to manufacturing their own products and selling them, which I don't see in Luxoft yet," the expert says.

However, Karachinsky is skeptical of such estimates. He thinks that if you redirect the outsourcer, you can get big problems - too much will depend on success. "A lot of very good and powerful inventions were made, but they died, they couldn't spin it," says the businessman. For this reason, he considers the transformation of IT *company into a factory for the production of new commercially successful programs is unreasonable and even impossible.*

In any case, according to Khmil, Luxoft in Ukraine has at least five promising years during which the market will develop. And although growth rates have already declined from 30% to 15% a year, even that is good. Especially against the background of not "success" of other industries - yes, industrial production in the country in February 2015 alone decreased by 22.5%.

"To say that outsourcing is already out of date is simply unreasonable," Karachinsky says optimistically.

***Source**: How with the help of Ukrainian programmers a Russian IT businessman created an international company // New Time. - 3.04.2015. - №12. - [Electronic resource]. - Access mode: http://nv.ua/publications/ kak-pri-pomoshchi-ukrainskih-programmistov-rossiyskiy-it-biznesmen-sozdal-mezhdunarodnuyu-kompaniyu-42690.html*

8.3. Management of the global supply system

Logistics covers the various activities that are required to deliver input from a supplier to a manufacturing company, to carry out the production process and to promote the finished product through a distribution system to the end consumer. At an international company, the implementation of logistics functions is complicated by long distances, differences in time zones, fluctuations in exchange rates, the presence of customs barriers, etc.

Just-in-Time Inventory Management (JIT) delivers great cost savings by reducing inventory creation and storage and eliminating the need to write off excess inventory (the main idea of "Just in time" - saving on inventory storage costs through shipping input materials to the plant just before they are used in the production process; significant cost savings are achieved by increasing inventory turnover). It was developed in the 1950's and 1960's. and now plays an important role in the work of most engineering companies. In addition, the JIT system helps the company identify defective parts in a timely manner and quickly exclude them from the production process, improving the quality of finished products.

Inormation technologies directly of electronic data interchange (EDI) systems over the Internet, play an important role in inventory management. EDI simplifies the tracking of incoming inputs, allowing the firm to optimize its production schedule, allowing the firm and its suppliers to communicate in real time and switch to electronic document flow in the firm's relationships with suppliers.

Case 8.3.
«Creating« Boeing 787»

Boeing 787 will create new landmarks for airlines and aircraft builders in the future. Designed for long-haul flights, the 250-seat 787 is constructed from new composite materials rather than traditional aluminum. Thanks to the use of *such materials, the "787" was 20% lighter than conventional aircraft of the same capacity, which allows to obtain significant savings in fuel consumption. In addition, the aircraft has a modern electronic filling, and the interior layout of its cabin is more convenient for passengers.*

To reduce the risks associated with solving complex technological challenges, Boeing has decided to outsource 70% of the parts and components of the new aircraft to other firms, mainly overseas. Interestingly, independent contractors produced 50% of parts and components for Boeing 777, 30% for Boeing 767 and only 5% for Boeing 707. The idea behind this approach was that in exchange for a share of the total production work, the partners would incur some of the design costs, estimated at $ 8 billion for the 787. Boeing also hoped that outsourcing would help it gain access to knowledge and skills of the most efficient manufacturers in any country, and thus reduce the cost of creating a new aircraft. Boeing also hoped that outsourcing would help it successfully sell 787s in the countries of its contracting firms. Boeing's role in the overall process was to design the aircraft, complete its assembly at its plant in Everett, Washington, and sell the aircraft to airlines. Boeing hoped that by outsourcing the design of such a large number of units and parts, it would be possible to reduce the aircraft development time from six years (that was considered industry standard) to four.

The major aircraft units are manufactured by 17 major partners from 10 countries. Vought Industries of South Carolina produces the rear of the fuselage, while the Italian Alenia Aeronautical makes the middle of the fuselage. Three Japanese companies, Fuji, Kawasaki and

Mitsubishi, manufacture the wings. The Canadian Onex Corporation supplies the bow of the aircraft. All these bulky items are shipped for final assembly at the Everett plant on three specially designed Boeing 747 aircraft for such transportation.

By the end of 2007, this strategy seemed to work quite well. Boeing has received orders for more than 770 new liners with a total value of more than $ 100 billion, providing the 787 with the most successful entry in the history of passenger aircraft construction. But in the global delivery system, the company began to appear invisible to the crack eye. In mid-2007, Boeing acknowledged that the 787 could be delayed by several months due to problems with the supply of special fuselage locks. But, as it turned out, there were more serious problems. In early 2008, Boeing announced the delay of delivery of the first 787 for 12 months and increased the cost of designing the aircraft by $ 2 billion. In addition, Boeing was faced with the prospect of paying millions of dollars in penalties for delaying delivery of new aircraft to its largest customers.

Most of the problems were the inability of several key partners to withstand the delivery schedule developed by Boeing. For example, for the manufacture of composite parts, Alenia had to build a new plant, but a three-hundred-foot olive grove was in place of the future construction site. Negotiations with the local authorities took several months, and as a result the company had to first transplant all the olive trees and only then proceed to construction. In addition, the first fuselage section manufactured by Alenia for Boeing did not meet the required quality standards. When all the necessary components arrived in Everett, Boeing found that the *fuselage had not installed some structural elements (as required by the technical specification) and that the instructions for their installation were only in Italian. Other problems arose from the fact that some partners outsource important design work to their subcontractors. For example, Vought outsourced the design and manufacture of some of the deck elements (for which she was directly responsible) to an Israeli firm. But this firm failed to meet all the required quality standards, and because it was bound by a commitment to Vought rather than Boeing, Boeing executives were unaware of the problem until it became a bottleneck in the process assembling the entire aircraft. Upon learning of the problem, Boeing quickly dispatched a group of engineers to Israel to assist a local firm, but several months were still lost.*

Despite all these difficulties, Boeing remains committed to its outsourcing program. However, the main conclusion made by the company is that when transferring some of the work to foreign contractors, Boeing managers need to carefully coordinate and control the activities of their partners.

***Source**: Hill C. International Business. [8th ed.] / C. Hill. - St. Petersburg: Peter, 2013. - P. 572-573.*

<u>CONTROL QUESTIONS:</u>

1.What are the strategic goals of international companies pursued by the functions of production and logistics?

2.Which groups of factors should a

company pay attention to when planning to open production abroad?

3.What are the technological factors in choosing the optimal location of production abroad?

4.What should be the barriers to trade for the firm to choose a strategy of decentralization of production abroad?

5.What should be the value of a product to its weight in order for the firm to choose a strategy for concentrating production in international expansion?

6.What should be the exchange rate for the international company to choose the strategy of decentralization of production?

7.What role does outsourcing play in the practice of international business? Justify the answer.

8.What is a "just-in-time" (JIT) inventory management system?

9.Why did Hewlett-Packard decide to set up a plant in Singapore in 1970?

10. In your opinion, what is the secret of the success of the international IT company Luxoft Ukraine?

11. What are the benefits for Boeing from outsourcing such a large amount of Boeing 787 construction work to foreign contractors?

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TERMINOLOGICAL DICTIONARY

Ad valorem duty is a duty fixed as a percentage of the customs value of goods imported or exported.

Anti-dumping duty is a duty levied on goods imported into the country at prices lower than the domestic market of the exporting country.

Arbitrage is an operation that involves buying a currency (commodity, securities) in one market, selling it immediately in another market, and making a profit as the difference between the purchase price and the sale price.

Balance of Payments is a statistical report that summarizes the economic transactions of residents with non-residents over a given period;

Barter is an export-import operation to exchange a quantity of one or more goods for an equivalent amount of other goods.

Big open economy - a national economy whose exports and imports account for a significant proportion of the relevant global indicators.

Co**mbined** duty is a duty that is calculated as a percentage of the customs value of goods, with a limit on the amount per unit of goods.

C**opyrig**ht (reproduction right) - a form of copyright protection that prohibits the reproduction and reproduction of mainly works of art and literature; a document certifying the exclusive right of the author of a literary, audio and video work to display and reproduce it.

Countervailing duty - the duty levied on imported goods, the production of which was subsidized; against the competitive advantage gained by a foreign firm through an export subsidy.

Culture is a system of values and norms that groups of people adhere to and that collectively define the program of life.

Currency - any payment instrument used for international payments, the country's currency.

Currency convertibility - the ability of a country's currency to freely, without any restrictions, be exchanged for foreign currency, both for residents and non-residents, and to function in all transactions without restriction.

Currency devaluation is a reduction in the exchange rate or central parity of a fixed exchange rate regime by the state.

Currency revaluation is a rise in the state's exchange rate or central parity with a fixed exchange rate regime.

Currency risk - the risk of losses associated with changes in foreign currency exchange rates relative to the national currency.

Customs are social conventions of daily life.

Customs Union - the agreed abolition of national customs tariffs by a group of countries and the introduction of a common customs tariff and a unified system of non-tariff regulation of trade with respect to third countries; the unification of states for the purpose of pursuing a policy of collective protectionism.

Direct investment is a category of international activity that reflects the desire of an institutional unit resident in one country to exercise control or to exert a lasting influence on the activities of an enterprise resident in another country through equity.

Discount policy - a policy of changing the central bank's interest rate to regulate the exchange rate and influence the balance of payments.

Diversification of foreign exchange reserves - regulating the structure of foreign exchange reserves by including different currencies in their composition.

Dumping is the artificial reduction of prices for goods (works, services) in foreign markets in order to eliminate competition. In other words, it is international price discrimination, at which the exporter sells his goods on the foreign market cheaper than in the domestic market, or even at prices below the cost of production.

Duty - an indirect tax on goods that are exported or imported over a period of time, performs fiscal and protective functions.

Economic integration is the process of convergence and adaptation of all structures of national economies, which results in long-term technical, technological and economic interdependence of the participating countries.

Economy of scale effect is the reduction in the cost of a unit of production, which is achieved due to the large volume of production.

Economic regionalization - the convergence of economies in a particular region on the basis of a high level of internationalization of economic development with the gradual formation of a single economic complex.

Economic union - the process of economic interaction between countries, the convergence of economic mechanisms, which takes the form of interstate agreements and is regulated by intergovernmental bodies.

Effective duty rate (effective customs tariff) is the real level of customs taxation of finished imported goods, determined taking into account customs duties on intermediate imports.

The effect of "trade creation" is the reorientation of local consumers from a less efficient domestic source of supply to a more efficient, external source (import), which was made possible by the abolition of import duties within the customs union.

Embargo is a ban on the export or import of goods, currency, securities, vehicles belonging to a foreign country by the state.

Emigration - departure of able-bodied population from a certain country beyond its borders;

Engineering is a contractual form of providing on a commercial basis engineering and consulting services of a production and scientific and technical nature, covering a wide range of measures for the preparation of feasibility studies of projects, conducting research works, installation and use of purchased or leased machines and equipment, supervision, testing, warranty and after-sales service and more.

Enterprise with foreign investments - enterprise (organization) of any organizational and legal form, created in accordance with the legislation of Ukraine, foreign investment in the authorized capital of which, in its presence, is at least 10 percent.

Ethnocentrism is an individual's perception of the superiority of his or her ethnic group or culture over other groups or cultures.

Euro is the only currency of the European Union countries, introduced in 1999.

The exchange rate is the price of the currency of one country, expressed in the currency of another country. It is an objective economic indicator that reflects the trends of the internal economic development of the country and the state and prospects of its foreign economic relations.

The experience curve reflects the systematic reduction in production costs observed over the life of the product.

Export crediting is a non-tariff financial instrument of foreign trade policy, which provides financial incentives for national producers to increase their exports.

Export (export of goods) - sale of goods by Ukrainian subjects of foreign economic activity to foreign economic entities (including payment in non-monetary form) with or without export of these goods through the customs border of Ukraine, including re-export of goods.

Export quota is an indicator that reflects the value of foreign trade for a country and is defined as the share of exports (including exports of services) in GDP.

Export subsidy is a non-tariff financial instrument of foreign trade policy, state financial assistance aimed at supporting national exporters and indirect discrimination against foreign producers.

Fixed exchange rate - officially established ratio between national currencies, which allows temporary deviation from it in one way or the other not more than 2.25%.

Foreign exchange markets are the official centres where foreign currencies are bought and sold based on supply and demand. There are different types of foreign exchange transactions.

Foreign investment - all kinds of property and intellectual property invested by foreign economic entities in Ukraine, resulting in profit (income) or social impact.

Foreign trade is the trade of any country with other countries, consisting of paid import and paid export of goods.

Foreign trade balance - total exports minus total imports.

Foreign trade turnover is the sum of the difference between the value of exports and imports.

Forward is an agreement concluded for the purpose of insurance against losses in the event of changes in interest rates, in which the parties agree on a rate of interest for a certain amount of debt, which must be determined in due time.

Forward rate - an agreed rate at which currencies are exchanged at a certain point in the future more than three days after reaching a rate agreement.

Franchising - an agreement whereby one party (franchisor) undertakes to transfer to another party (franchisee) for a fixed term a set of exclusive rights for the use of the trademark, process, specialized equipment, know-how, commercial information, as well as other stipulated contract of franchise objects.

Freedom of Trade is a policy of minimal state interference in foreign trade, which is influenced by the free forces of demand for and supply of goods.

Free Trade Area - an agreement between countries to remove all tariff and quantitative restrictions on mutual trade. However, each country in this area maintains its own tariff and other trade regulation with third countries.

Futures - an agreement that involves the exchange of a real asset owned by either a party or the exchange of two financial assets within the time limit and at the agreed rate.

The gain from trade is the economic effect that the member states of the international trade receive when each of them specializes in trade of the goods in production of which has a comparative advantage.

Globalization (lat. Globus - ball) is a process of shift towards a more integrated and interdependent world economy.

The Globalization Index is an aggregate indicator that reflects the level of involvement of a country in globalization processes.

Hedging is a system of entering into fixed-term contracts and agreements that takes into account the probable future changes in exchange rates or commodity prices in order to avoid losses from these changes.

Immigration is the entry of able-bodied people into a certain country from abroad.

Import (import of goods) - purchase (including payment in non-monetary form) by Ukrainian entities of foreign economic activity in foreign entities of economic activity of goods with or without import of these goods into the territory of Ukraine, including the purchase of goods intended for own consumption institutions and organizations of Ukraine located outside its borders;

Import quota - expressed as a percentage of the country's imports into its GDP over the same period, which characterizes the country's dependence on world markets; one of the indicators of openness of the economy.

International business is the conduct of business transactions by partners from more than one country.

International division of labor - an international form of social division of labor, based on the specialization and cooperation of countries in the production of goods and services, which they exchange through international trade.

The international division of labor is a direct continuation of the social division of labor within the country, it is the process of specialization of individual countries, associations, enterprises for the production of individual products or their parts with the cooperation of producers for joint production of final products.

An international company is any organization that conducts its business on the basis of entering into commercial agreements with individuals, private companies and / or state organizations of foreign countries.

International cooperation is the uniting of the efforts of manufacturers of several countries in the production of certain types of goods for the world market.

International economic integration is the process of convergence, interpenetration, merging of national economies and formation of a coherent regional economic complex.

International investment (entrepreneurial capital) - funds that are directly or indirectly invested in production abroad for profit.

International labor migration is the process of organized or spontaneous movement of a working population from country to country.

The International Monetary Fund (IMF) is a multilateral intergovernmental monetary institution with the status of a specialized institution of UN, which forms the institutional basis of the world monetary system.

International movement of capital, as one of the main forms of international economic relations, means the movement of capital between the subjects of the international economy for its optimal use.

International multinational corporations are large associations of industrial, commercial, transport or banking firms and companies whose activities extend far beyond their home country and provide them with favorable positions in manufacturing, marketing, purchasing and supply of services. An important feature of TNCs is the implementation of a single coherent strategy through one or more business decision centers.

International specialization - the stable orientation of national economies to the production of certain products in order to sell them on the world market;

Internationalization - is a process of developing stable economic relations between countries (primarily on the basis of international division of labor) and beyond reproduction beyond the national economy.

Internationalization of capital is a process of interconnection and unification of national capitals, which is manifested both in the creation of objects by individual companies in other countries, and in the development of international forms of communication and contacts between the capitals of different countries.

Internationalization of economic life is the convergence of economies of countries, which is manifested in the growth of industrial interdependence, increase in international trade, movement of capital and labor, mutual influence on the most important economic processes in the countries, including the dynamics of prices, interest rates and more.

Internationalization of production is the establishment of direct sustainable industrial relations between enterprises in different countries, which makes the manufacturing process in one country part of a worldwide process.

International technology transfer is the interstate transfer of scientific and technological achievements on a commercial or free of charge basis.

International trade is the sphere of international commodity-money relations between the subjects of the world economy, which is a specific form of exchange of labor products between sellers and buyers of different countries. In other words, international trade is a set of foreign trade of all countries of the world.

Joint venture is a company owned simultaneously by two or more companies from different countries.

Language is a verbal and non-verbal means of communication.

Learning effect is the cost savings provided through on-the-job training.

Leasing is a long-term rental of machinery, equipment, vehicles and more.

Licenses - a licensee's fee paid by the licensee for the use of the subject matter of the license agreement.

License agreement is the main form of international technology transfer; an international trade agreement whereby the owner of the invention or technical knowledge (the licensor) grants the other party (the licensee) permission to use for a specified fee their rights to the technology.

Logistics is an activity related to the control of the movement of tangible goods along the value chain - from the purchase of input materials to the production and distribution of finished products.

Moral foundations are the norms that are fundamental to society and its social life.

Mode of the highest perception is granting GATT / WTO member countries all rights and privileges in trade enjoyed by any third country.

Net exports - exports of goods and services minus imports.

Net imports - imports of goods and services minus exports.

Non-residents are all institutional units permanently resident in the territory of a foreign country, even if they are branches of the institutional units of that country.

Non-tariff restrictions - regulation of domestic trade using quantitative, hidden and financial instruments.

Norms are social rules and guidelines that determine the proper behavior of people in specific situations.

Offshore business - the business of companies located in joint venture centers outside the country in which it is incorporated, but which is not subject to national law, is granted a preferential treatment for financial and credit operations with foreign residents in foreign currency.

Offshore zones are tax, currency and other non-resident territories that have their own accounts and businesses in these territories but operate exclusively with other countries.

Open economy is a national economic complex that is integrated into the system of world economic relations in order to realize national interests, taking into account the interests of partner countries.

Organizational structure - a formal division of an organization into structural units such as product units, national subsidiaries and functions.

Outcome control - checking the extent to which the unit's goals are met (profitability, productivity, growth, market share and quality).

Outsourcing - the use of an external source and / or resource - a transfer by an organization, under the agreement, of certain types or functions of production, business activity to another company operating in the desired field.

Portfolio investment - cross-border transactions and balances related to debt or equity securities other than those included in direct investment or reserve assets.

Production - a set of activities that are performed when creating a product.

Protectionism is a policy of state interference in foreign trade in order to protect the internal market from foreign competition through the use of tariff and non-tariff instruments of trade policy.

Remittances are funds earned or received by non-nationals of the countries of destination that are transferred to their countries of origin.

Quota is a quantitative non-tariff restriction on the export or import of a product by a certain amount or amount for a certain time.

"Voluntary" export restriction is a quantitative export restriction based on the obligation of one of the trading partners to limit or at least not expand the volume of export accepted under a formal intergovernmental or informal agreement setting export quotas. It is a form of non-tariff quantitative trade restrictions that implies export restrictions on goods exporters.

Trade deflection effect is the reorientation of local consumers from purchasing goods to a more efficient non-integrated source of supply to a less efficient internal integration source, resulting from the abolition of import duties within the customs union.

Preferential trade zone is a preferential trade zone arising from the conclusion of two or more countries intending to integrate trade agreements under which they reduce reciprocal tariffs while maintaining the existing tariff level in trade with third countries.

Re-export (re-export of goods) means the sale of goods previously imported into the territory of Ukraine to foreign economic entities and export from Ukraine.

Reimport - import from abroad of goods previously exported from a given country without any processing in the country abroad.

Reinvestments are repeated, additional investments made previously in the form of income from investment operations.

Religion is a system of general beliefs and rituals related to higher powers

Resident is an economic agent of a particular country who resides in the territory of that country irrespective of his nationality or capital.

Royalty is one form of royalty payment that provides for periodic interest deductions from the actual profits or sales volume generated by the commercial use of the license.

Small open economy - a national economy whose exports and imports account for a small share of world exports and imports.

Society is a group of people who share values and norms.

Strategy is a long-term qualitatively defined direction of development of the organization, concerning the sphere of activity of the organization, the means and forms of its activity, the system of relationships within the organization, as well as the positions of the organization that it wants to gain as a result of its activity.

Subject is one who (or what) learns, thinks, and acts, unlike the object, to that the thought and action are directed (philosophical).

Tariff escalation - raising the level of customs taxation of goods as their degree of processing increases.

Tariff quota is a two-tier customs tariff linked to the quantity of goods at which a given quantity of goods can be imported at a "preferential" (ie lower) rate of duty over a certain period. Once the tariff quota has been filled, it is possible to continue importing the product without restriction, but to pay a higher tariff rate (usually the most favoured or generalized system of preferences).

Technology is a scientific method of achieving practical goals. The concept of technology usually includes three groups of technologies: product technology, process technology and control technology.

Technopoles are the highest form of integration of productive forces, venture (innovative) capital, financial and credit institutions, and the state in the process of production in order to deepen the STD and create an information society.

Trade liberalization is the removal of obstacles and barriers to international trade.

Trademark - one of the forms of legal protection of technologies; registered in the established order a symbol of a certain company (drawing, graphic image, abbreviation, name of the founder, etc.), which serves the individualization of the manufacturer of the goods and cannot be used by other entities without the official permission of the owner.

Transnational corporation - a corporation whose parent company is owned by the capital of one country and its branches are located in many countries of the world; national in capital and control, international in business.

Transnational enterprise is a business enterprise operating in two or more countries.

Transnationalization is the process of expanding and strengthening the activities of multinational corporations - large companies, national in formation of capital and international in its activity and sphere of control.

Values are abstract ideas of what a group of people think is good, right and desirable.

The world economy is a dynamic system of interconnected national economies and relations between their respective subjects of economic life, which operates on the principles of international division of labor and covers all stages of the economic reproduction cycle.

The World Trade Organization (WTO) is an international organization whose purpose is to develop a system of international trade rules and monitor their compliance.

The world market - a set of trade turnover between countries.

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Notes

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