

Lecture 4

Principles of Management

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Key Terms:

- Borderless بلا حدود
- International دولي
- Global عالمي
- Globalization العولمة
- Foreign Market سوق اجنبي
- Outsource تصدير عملية الصنع/الخدمة
- Host country. البلد المستضيفة
- Investment استثمار
- Trade تجارة
- Barriers عوائق/حواجز
- Export التصدير
- Import استيراد
- Tariffs الرسوم الجمركية
- Franchise حق الامتياز
- Infrastructure بنية تحتية

- Characteristics مواصفات
- Capital رأس المال
- Trade alliance تحالف تجاري
- Transport المواصلات
- Parent Company. الشركة الأم
- Affiliate. الشركة التابعة

- Domestic وطني/محلي
- Disputes النزاعات
- Settlement تسوية
- Assets الممتلكات
- Merchandise سلع
- Expat العامل المغترب
- Remittances التحويلات المالية

Key Abbreviations:

- FDI (Foreign Direct Investment) الاستثمار الأجنبي المباشر
- ICT (Information Communication Technologies). تكنولوجيا المعلومات والاتصالات.
- MNC (Multinational Corporation). الشركة المتعددة الجنسيات
- LDCs (Less Developed Countries). الدول اقل نمو.
- HQ (Head Quarters). المقر الرئيسي.

Lecture Objectives

اهداف المحاضرة

1. Describe the emerging borderless world.

وصف فكرة نشوء عالم بلا حدود.

2. Define international management and explain its differences with domestic business operations.

عرف الإدارة الدولية واطرح اهم أوجه اختلافها مع عمليات شركة محلية/وطنية.

Lecture Objectives

3. Describe the characteristics of a multinational corporation.

ماهي مواصفات الشركة المتعددة الجنسيات؟

4. Describe market entry strategies that businesses use to develop foreign markets.

ماهي استراتيجيات التي من الممكن ان تستعملها الشركة لتطوير أسواق اجنبية؟

1. Describe the “Emerging Borderless World”

وصف فكرة نشوء عالم بلا حدود.

- What do we mean when we say management today operates in a “borderless world?”

عندما نقول الإدارة اليوم تعمل في عالم «بلا
حدود» ماذا نقصد؟

Any guesses?



By “emerging borderless world?” we are referring to the process of...
نتحدث بشكل أساسي عن.....

- **Globalization.** العولمة

- Globalization involves *the fast flow* of **information/ideas, capital, goods, and people** across national borders.....

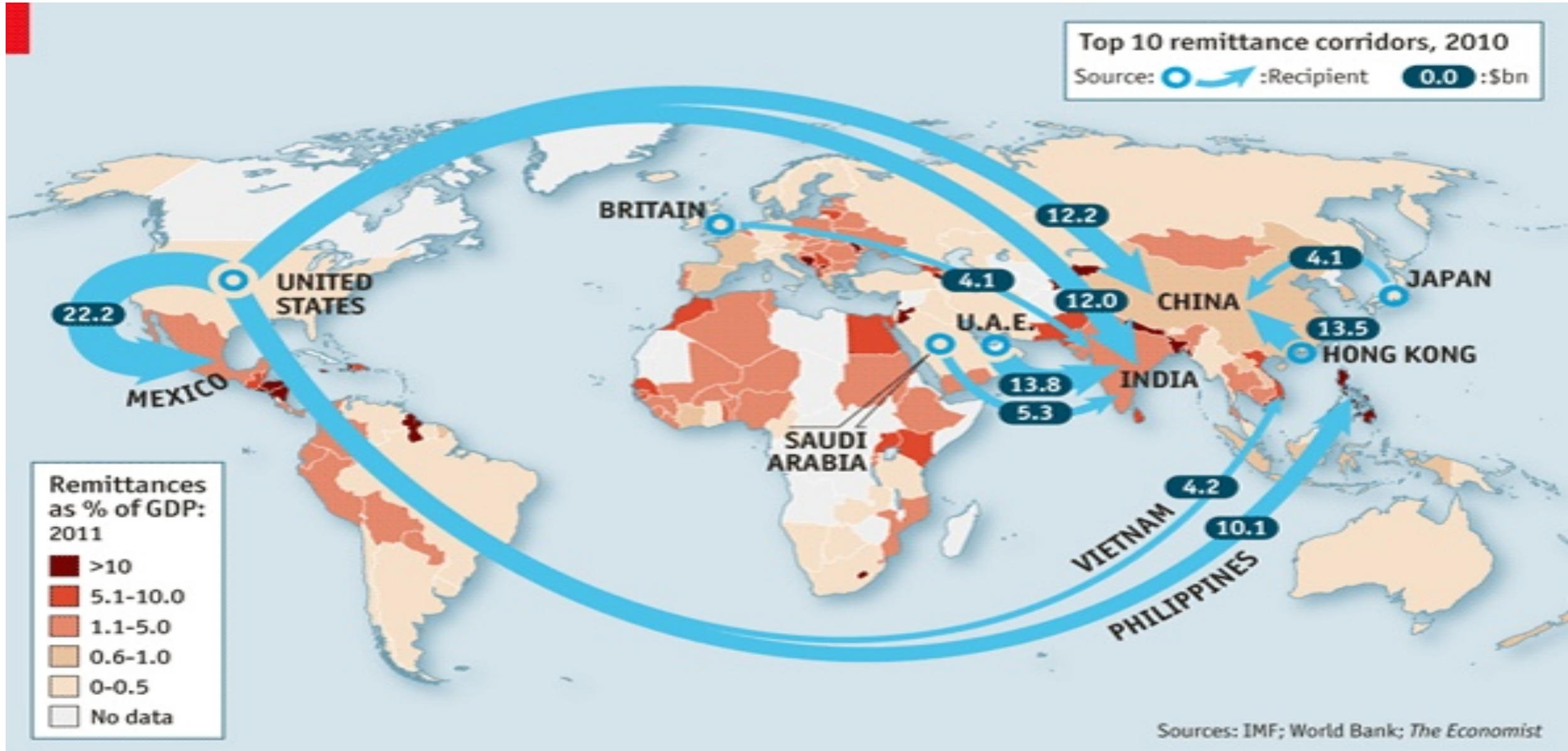
العولمة تتضمن التدفق السريع للمعلومات/الأفكار، المال، السلع، والبشر، عبر الحدود الدولية.

- One of the most important **agents** of globalization are multinational companies (MNCs).

الشركة المتعددة الجنسيات تعتبر من أهم محركات العولمة.

Globalization: Capital Flows

العولمة: تدفق المال



العولمة: تدفق البشر Globalization: Flows of People

source: National Geographic (major migration patterns).



1. What did you notice?
2. Where is the destination of these flows? What is driving the movement of people? And are there other forms of movement?

الى اين يتدفق الناس؟ ماذا يدفع هذا التدفق؟ ما نوع السفر؟ هل هناك أنواع أخرى من السفر؟

South  North migration. هجرة من الجنوب الى الشمال.

South (**periphery**) to the North (**the core**) of the capitalist economy.

من الهامش الى جوهر/صميم الاقتصاد الرأسمالي.

Reflects inequality in wealth distribution and centralization of business production in west.

هذه التحركات تعكس عدم المساواة في توزيع الثروة، وتمركز العملية الإنتاجية في الغرب.

Globalization: Flows of Ideas

العولمة: تتدفق الأفكار



Globalisation: the Flow of ideas

تدفق الأفكار

- All businesses are ideas.
كل مشروع عمل هو «فكرة».
- These ideas cross borders...
تسافر هذه المشاريع/الأفكار عبر الحدود الدولية...
- Effect the local culture and helps create a new, global culture.
تأثر في الثقافة المحلية، وتصنع ثقافة دولية جديدة.



- As new ideas enter the new Host Country they effect...

- Customs and traditions. العادات والتقاليد.

- Some traditions challenged and replaced.

- Language. E.g. Spread of English. Hybrid Arabic-English. اللغة.

- Fashion, style. e.g. Western style of dress. الذوق/اللباس

- Beliefs. المعتقدات

- E.g. a shift from a belief in collectivism to individualism, from spirituality to materialism.

نقلة من الثقافة الجماعية الى الثقافة الفردية.

Q. So what makes globalization possible?

ما الذي جعل العولمة ممكنة؟

1. Developments in transport.

التطورات في المواصلات.

2. Development in Information Communication Technologies.

تطورات في تقنية التواصل المعلوماتية.

3. Removal of international trade barriers.

إزالة الحواجز أمام التجارة الدولية.

1. Developments in Transportation

تطورات في المواصلات

- Leads to **time-space compression**.
 - Modern transportation alters the way we think of the world in a radical way...it suddenly is not that big.
 - Spatial and temporal space are compressed.



The Flow of Goods: Shipping Container تدفق السلع: الحاوية



- Has radically reshaped international trade.
- Invented 1956.
- Made loading and unloading easier.
- Losses to theft reduced.
- Easier to transport by lorry, train, and ship than loose cargo.
- Containers stick together can carry in a safe, organized, efficient way.

2. Developments in ICT

تطور تكنولوجيا المعلومات والاتصالات

- The physical barrier of space is overcome by technologies such as:

- **Email.**
- Video-calling services (Skype),
Audio/Video calling services (WhatsApp, Viber).
- Facebook, Instagram, Snapchat.



The Consequence of Globalization is...

- That national economies are becoming more interconnected and interdependent.

اقتصاد الدول لم تعد مستقلة، بل متشابكة وتعتمد على، وتتأثر ببعضها.

- National cultures are giving way to a global culture.

الثقافة القومية تعطي المجال لثقافة دولية جديدة.

- And the world is feels borderless.....*relatively speaking*.

- Managing a business in this globalized, borderless world is called...**international management.**

2. Define International Management

عرف الإدارة الدولية.

- International business management is the management of a business with operations extending over more than one country.
الإدارة الدولية هي إدارة مشروع عمل ذو عمليات تمتد على أكثر من دولة.
- It involves the same 4 functions: planning, organizing, controlling and leading...
نفس الوظائف الأربعة، تخطيط، وتنظيم، وتحكم وتصحيح الأداء، لقيادة... نحو تحقيق الأهداف بأكثر فاعلية وكفاءة.
- It also involves financing and production and distribution of products and services....
تتضمن عمليات تمويل، وتصنيع، وتوزيع الخ...
- Substantively it is the same, only it happens across international borders.
اذ هي إدارة ولكنها تجتاز الحدود الدولية.

International Management Vis-à-Vis Domestic Management

كيف تختلف الإدارة الدولية عن الإدارة بشكل عام.....

- International Management Team or International Department must consider:
 - Time-zone differences create coordination challenges. Members meet virtually.
 - Differences in cost of living & therefore differences in wages.
 - International management involves **higher risk** and a higher degree of environmental **complexity**. Risk management necessary.
 - **Cultural sensitivity** is a requirement for an international manager.

International Management: Cultural Sensitivity

- An international manager is **multi-lingual**.
- An international manager is **mindful of cultural differences** like differences in tolerance for inequality.
- In **high power distance** cultures people generally accept inequality within the organization.
- In **low power distance** cultures unequal treatment is **not** accepted.

International Management:

- International management teams must understand the key dimensions of the international environment:

فريق الإدارة الدولية لابد ان يفهم الجوانب الأساسية للبيئة الدولية:

1. The International Economic Environment.

البيئة الاقتصادية الدولية.

2. The Legal-Political Environment.

البيئة القانونية/السياسية الدولية.

3. The Socio-Cultural Environment.

البيئة الاجتماعية-الثقافية.

The International Economic Environment

- Companies operating in the international economic environment must consider:
- The degree of development in the target country when thinking of internationalisation.
- Countries can be classified as “developed” نامية متقدمة “developing”
- “First world” “Second World” “Third World.”

Question. How is the degree of *development* measured?

- **Question. How is the degree of *development* measured?**

- ***GDP Per Capita*** (GDP = Gross Domestic Product / divided by total population).

الناتج المحلي الإجمالي للفرد.

- GDP per capita reflects average living standard. هذا المقياس يعكس مستوى المعيشة.

- China in 2013, GDP= 9.2 trillion, GDP per capita = \$6, 800.

- Luxemburg in 2013, GDP= 60 billion, GDP per capita= \$110,00.

- What about measuring health, life-expectancy, happiness, education? (Human Development)

- Real GDP and these measures are correlated.

- When MNCs choose a base they consider these factors, and usually set up head quarters in the **economically advanced countries**.

- Companies operating in the international economy must also consider...
الشركات التي تعمل في الاقتصاد الدولي، تضع اعتبار مهم على....

- The condition of the **infrastructure**
وضع البنية التحتية في الدولة المستهدفة.

- Infrastructure is the physical structure that supports the company's economic activities.
البنية التحتية هي الأساس التي تستند عليها عمليات الشركة.

Question. What are some examples of facilities that make up a country's infrastructure?

سؤال: ماهي بعض الأمثلة لمكونات البنية التحتية؟

Infrastructure

البنية التحتية

- Roads/Highways/Railways.
- Airports/ Seaports.
- Energy facilities.
- Telephone lines and radio stations.

- LDC (Less-Developed Country) = lower quality of infrastructure.
- LDCs present logistical, distribution and communicational challenges to international companies.
الدول النامية تمثل تحديات لوجستية (تدفق البضائع، والطاقة والموارد الأخرى).
- **Imagine:** You are a Multinational Corporation interested in opening a branch in Libya, will the condition of the infrastructure challenge your operations? If so, how?

- Electricity black-outs.
- Unsafe roads.
- Unplanned streets.
- No postal system.
- No train network.
- Problematic airport.
- Poor quality and expensive internet connection.

- However, underdeveloped infrastructure can be an opportunity for some companies.
- A company which specializes in waste collection, road repair, telephone line maintenance ...views the LDC as *the target market*.

The Political Environment

- Companies considering internationalization must consider:

1. Political Risk. المخاطر السياسية

2. Laws and Regulations in host country. القوانين واللوائح في البلد المضيف

1. Political Risk

درجة المخاطرة السياسية

- ‘A company’s political risk is defined as the risk of losing its assets, earning power or managerial control due to politically motivated events or actions by host governments’ (Daft, 1998, p. 115) .

المخاطرة السياسية تتمثل في خطر خسارة الشركة لممتلكاتها، قدرتها على الإدارة والتحكم في عملياتها نتيجة احداث سياسية في الدولة المستضيفة.

2. Political Risk:

- International companies face the problem of political instability when operating in new places abroad. For example the risk of...
 - قد تواجه الشركات الدولية تحدي التقلبات السياسية في الدولة المستضيفة. امثلة على هذه التقلبات تتضمن:
 - Riots. اعمال شغب.
 - Civil disobedience. عصيان مدني.
 - Civil war. حرب أهلية.
 - sudden changes in government leadership. تغيرات مفاجئة في السلطة.

The Socio-Cultural Environment

- If it wants to operate within new foreign markets successfully international management must learn local culture,
لتضمن نجاح عملياتها في الاسواق الأجنبية على الإدارة استيعاب طبيعة الثقافة المحلية.
- **Some of the dimensions of national culture** that international management should take into account:
 1. Power-distance. مدى تقبل توزيع السلطة بشكل غير متكافئ
 2. Individualism and collectivism spectrum. درجة الفردية أو الجماعية.

Describe market entry strategies that businesses use to develop foreign markets.

ماهي استراتيجيات التي من الممكن ان تستعملها الشركة لتطوير أسواق اجنبية

1. Outsourcing
2. Exporting
3. Licensing/Franchising
4. Direct Investing (FDI)

1. Outsourcing

- Involves **contracting out** some of the companies operations and activities, whether core production or support services, to third parties in countries with cheaper labour, supplies to save money, time and energy.

يتضمن التعاقد واستئجار كفاءات من جهات ثالثة (أجنبية) لتولي استكمال بعض من عمليات الشركة، سواء كانت عمليات إنتاجية أو عمليات مساندة وذلك لغرض توفير المال، والجهد والوقت.

- Companies can outsource core functions like manufacturing or support functions like customer support, accounting, facilities management & catering.
- Example:
 - Apple contracted Foxconn to manufacture its iPhone in China.
 - 47% of UK service companies outsource some of their activities to India.



Problems with Outsourcing

1. Unsafe and unfair working conditions due to poor regulations in host-country.

قد تكون ظروف العمل سيئة، غير امانة وغير عادلة.

2. Create jobs abroad, but lose jobs domestically.

التعهد يخلق وظائف بالدولة المستضيفة، ولاكن يؤدي الي خسارة الوظائف في الدولة الام.



2. Exporting

التصدير

- Sending of final goods from one country to another country.
- With exporting, the company maintains its production operations in the **home nation**.
-
- Only transfers its **final goods** for sale in **foreign markets**.
- Problems associated with exporting include **trade barriers**.

- Which country is the world's largest merchandise exporter?
- Which country is the world's largest importer?

- In terms of exports of merchandise in 1st place China, 2nd Place goes to USA.
- In terms of imports, the USA is the largest importer of goods purchasing 2 Trillion dollars worth of merchandise per year.

- What kind of goods does the USA **Export** to foreign markets?
- **Guess?**

USA Exports include:

- Pharmaceuticals, aircraft, machinery, weapons, oil, corn, cotton and intellectual goods like, music and movies.



Licensing: Franchising

حق الامتياز

- A contract between two legally independent parties.

عقد بين طرفين مستقلين قانونيا واقتصاديا.

- One party (**franchisor**) provides consent to the second party (**franchisee**) to produce and distribute its goods/service under its brand/trade mark with the supervision and instruction of the franchisor.

يقوم بمقتضاه أحد طرفيه والذي يطلق عليه مانح الامتياز بمنح الطرف الأخر والذي يطلق عليه ممنوح الامتياز بالموافقة على استخدام المعرفة الفنية لإنتاج و توزيع منتجاته أو خدماته تحت العلامة التجارية لمانح الامتياز ووفقا لتعليماته وتحت إشرافه حصريا في منطقة جغرافية محددة.

- **Can you name some international businesses' with a franchise model?**

Top, Global Ranking Franchises

source: Entrepreneur Middle East Online.



4. Direct Investing

الاستثمار المباشر

- This entry strategy, differs from outsourcing, exporting, and licensing/franchising because it involves *managerial control*.

على عكس التعهيد، والتصدير، وحق الامتياز، الاستثمار المباشر يوفر للشركة تحكم اداري كامل.

Popular forms of Direct Investment:

1. Joint Venture مشروع مشترك
 - company shares costs and risks with a company in the host country.
2. Direct acquisition. الاستحواذ على الشركة
 - Own the foreign affiliate in full, and gain complete managerial control.

4. Characteristics of Multinational Corporations (MNCs).

- Also called transnational companies, international enterprises...all the same.
 - For-profit.
1. Any company that draws more than 25% of its total revenue from outside its home country is considered a MNC.
 2. A MNC is managed as an integrated world-wide business. All affiliates act in close alliance and cooperation.

Characteristics of Multinational Corporations (MNCs).

3. An MNC operates in multiple countries, but is controlled by a single management authority that makes key strategic decisions from the Home Country (HQ).
4. They are subject to the laws of the host-country.

Characteristics of MNC:

SONY

SAMSUNG



- Large size.
- Large capital.
- Presence in multiple countries.
- Centralized management authority/control.
- Trade in multiple currencies.

Benefits and Negatives of the MNC

Benefits for Host Country

- They can improve the economic conditions of the host country.
 - A source of tax revenue.
 - They can create jobs.
 - They can encourage development of infrastructure.
 - They can bring technology to new places.
 - They provide customers with access to the world market.
 - They link up domestic companies with the world market.

Negatives for Host Country

- Draw profit from host-country and return it to home-country (HQ).
- May be viewed as political and cultural interference in host country.
- Some MNC's do not make fixed investments. Capital flight.
- Exploit workers in LDCs.
- Create “dependency” in LDCs. The domestic industry never picks up.

Questions?

