Managing Global Business 17

1. Businesses that trade across international borders have a range of payment methods available to them. Summarise the main methods of payment available to these businesses and the factors that will influence their choice of method.

The methods of payment used by international businesses are as follows:

- Clean payment – where the customer pays the business at the point of sale.
- Open account payments – customers are allowed to accumulate a short term debt which must be settled periodically.
- Documentary collections – the exporter‘s and customer’s banks take on the role of intermediaries in the payment process.
- Documentary credits – the importer’s bank gives the exporter a document agreeing to pay for the goods once the customer has received them.
- Credit cards – convenient means of payment where the purchases are unlikely to be ongoing.
- Counter trade – settling accounts in non-monetary terms e.g. swapping goods or services.

There are many factors that influence the choice of method including different currencies, time lapses between orders and fulfilment and different levels of credit risk.

2. Explain what is meant by the term hedging.

Hedging refers to the practice of reducing or eliminating risk. Businesses can use various financial instruments (e.g. futures, forwards, swaps and options) to offset any potential change in asset prices – they can ‘hedge’ their risk exposure.

3. Explain how the farmer might hedge against the possibility that soy bean prices will fall over the next month.

The farmer could use a futures agreement, where s/he could agree to sell an underlying asset (the soy beans) at a specified date in the future (one month’s time), which will allow him or her to fix a price for the soy beans.

4. Discuss the risks the Japanese food company is exposed to.

The Japanese food company is exposed to two main risks. First, that the price of soy beans will be higher in one month’s time. Second, that the exchange rate will appreciate (i.e. the Australian dollar will rise relative to the Japanese Yen) and the soy beans will cost more in terms of Yen.

5. Explain how the Japanese food company could hedge against currency fluctuations.

The Japanese food company could hedge against currency fluctuations by purchasing a 'call' option, which would give the business the right to buy a certain amount of Australian dollars at the current exchange rate. If the exchange rate appreciated over the next month, the Japanese company could exercise its call option which would guarantee them an exchange at the original exchange rate.

6. Outline how a business might manage the marketing risks associated with introducing a new product to a foreign market.

A business can reduce the risks involved in marketing a new product in a foreign market by conducting market research (both primary and secondary). The research will need to be more intensive than that employed in the domestic market as the business may not be familiar with the culture and market attributes of the overseas region.

7. Identify how globalisation can impact on labour standards.

Globalisation has in some cases had a dangerous impact on labour standards as many businesses have exploited weaker labour laws in some developing countries. In recent years though there has been a push to develop a global safety net to protect the world's most vulnerable workers. However, there are also positive impacts. Wages are becoming internationalised and nations with a high unemployment rate (e.g. Poland) can supply labour to other nations (e.g. Ireland) thereby assisting both nations.

8. Explain how a business might organise its staffing in a foreign market.

There are three major staffing models that a business may use:

- Ethnocentric staffing model – business favours people from the business's home country for higher level management positions.
- Polycentric staffing model – business gives preference to people from the host country for local managerial positions.
- Geocentric staffing model – business tries to fill positions based on the merit of employees regardless of nationality.

9. Discuss the different ways a business might structure its international business operations and likely factors influencing its choice of structure.

It may use a regional approach whereby it sets up a regional head office that makes decisions for all business operations within that geographical area, which would then give the business a local presence. Structures revolve around the markets and would tend to be market based.

10. Examine TWO ethical dilemmas faced by businesses investing in foreign countries.

One ethical dilemma faced by global business is that of ecological sustainability. Many businesses have established operations in developing nations to take advantage of the lack of environmental regulations. This has resulted in a great deal of damage to many natural environments and an increase in pollution. Another ethical issue is the existence of tax havens and whether business

