

Specific Influences on Global Business

16

Matching

Definitions	Terms
The price of one country's currency in terms of another country's currency	Exchange Rate
A situation where the price of one country's currency rises against another country's currency	Appreciation
An exchange rate market where the rate of exchange applies for a short period(two days) only	Spot market
A regional trade agreement between New Zealand and Australia	CERTA
A regional trade agreement between North American countries	NAFTA
A UN organisation that protects intellectual property worldwide	WIPO
Aspects of global business that involve things such as languages, tastes and varying business practices and ethics	Social and cultural influences
The process where a World Trade Organisation panel considers complaints from member nations and makes a ruling.	Dispute resolution
The problem associated with business being interrupted by war and civil unrest.	Political risk
An exchange rate market where the rate of exchange applies for up to 12 months	Forward market

True or False

- | | | |
|----------|----------|-----------|
| 1. False | 5. False | 9. False |
| 2. False | 6. True | 10. False |
| 3. True | 7. False | |
| 4. True | 8. False | |

Multiple Choice

- 1 A Financial influences-currency fluctuations
- 2 D Financial influences-currency fluctuations
- 3 B Specific influences on global business
- 4 A Political influences - protection
- 5 A Legal and social influences
- 6 C Political influences
- 7 D Political influences
- 8 D Financial influences-currency fluctuations
- 9 D Political influences – international organisations and treaties
- 10 B Political influences – international organisations and treaties
- 11 B Social/cultural influences
- 12 D Political influences – international organisations and treaties
- 13 A Political influences - protection
- 14 D Social/cultural influences
- 15 D Political influences – trade agreements

Short Answer Questions

Question 1

- (a) One political influence centres around the tensions between protection and free trade. Although Italy is within the European Union (EU), a regional trading alliance, this alliance appears to outside nations as a separate country, with tariff barriers which restrict trade. If Jimmy's is Australian, it originates from a free trade country so there are political influences there. Another political influence is regionalism where regional trading organisations such as the EU develop.

War and civil unrest is another political influence affecting employment relations and poses financial risks.

- (b) Workers might resist the relocation overseas because it would mean a loss of employment in the domestic economy. They would certainly lose their jobs when the local production plant shut down.

The owners or managers of the business might resist the relocation because it would involve financial cost of establishing overseas, making redundancy payments to local workers who were eligible if the local plant closed and possibly the costs of retraining workers.

- (c) Jimmy's could avoid many of its problems by franchising its business to Italian manufacturers. This would be successful if the brand was well-known. The Italian franchisee would use the trade name while Jimmy's would maintain a continuing interest in the franchises.

Franchising would mean that Jimmy's would be operating in Italy without being subject to the tariffs. Licensing is another method of expansion that Jimmy's could use. It is similar to franchising except that once the license is granted, the licensor (Jimmy's) does not have to supervise the licensed business closely. Licensing usually applies to intellectual property so that in this case it would apply to the designs that Jimmy's had developed.

Question 2

- (a) One socio-cultural factor that Toni-Soft should take into account is the different business practices which apply in different countries. While piracy might be normal and

the police might “turn a blind eye” to it elsewhere, it has the potential to affect Toni-Soft badly in Venezuela.

Different ethical practices are also important. While bribery may be the norm in the home country of a business, it may be completely illegal in the host country.

- (b) Legal problems might arise when operating in global markets because of different jurisdiction or even no jurisdiction. Quite often host country governments may be less protective of intellectual property than home country governments. Businesses need to register patents, trademarks and designs in all countries where their products are produced and sold.
- (c) One marketing strategy that could be used to improve Toni-Soft’s image could be to use opinion leaders to promote the product in host countries. If the opinion leaders were well-known and well-respected personalities (e.g. retired sports stars) this would certainly enhance the reputation and image of the business.

Another marketing strategy that could be used to improve Toni-Soft’s image could be the use of an exclusive distribution channel. This has two advantages. The producer has substantial control over the retailer because the product can be withdrawn from sale at any time. Another advantage is that with an exclusive channel Toni-Soft is using a distributor which would be chosen because of its good reputation.

Question 3

- (a) Economies of scale refer to cost savings which a business can achieve by producing and selling a high volume of output. With a high output volume, inputs could be bought in bulk and the buyer could negotiate a discount with the seller.

If the business is a multinational corporation with subsidiaries located in a number of countries, it can take advantage of its various locations to warehouse and distribute the product in the cheapest location. Similarly, a multinational will choose to locate production where production costs are lowest.

- (b) ABSO could have protected itself from depreciation of the \$A by buying a forward foreign exchange contract (known as forward cover). These contracts can be for up to 12 months and lock the exchange rate in at the time of the contract. ABSO would know how much it had to pay when the contract matured.

One downside would be that ABSO could not take advantage of favourable movements in the exchange rate. If ABSO wanted more flexibility it could purchase a currency option. By doing this it then has the right to buy the foreign currency at a date in the future to repay the \$1 000 000 loan at a price that is agreed to now. If the exchange rate moves in ABSO’s favour and is better than the option price it does not have to use the option.

- (c) Overseas borrowing can have a beneficial impact on both profitability and liquidity. Businesses are able to take advantage of interest rate differentials and borrow in markets where interest rates are relatively lower. If the Reserve Bank of Australia lifts interest rates and US interest rates remain unchanged, an Australian business could borrow funds in the US at the lower rate (and since exchange rates are sensitive to interest rates probably at an advantageous exchange rate). This gives the Australian business two advantages, especially if it is able to fix the interest rate and secure a good forward cover rate. When the loan matures the business can pay the loan back at both an advantageous interest rate and exchange rate. This makes it good for profitability and while it has had use of the borrowed funds, good for liquidity.