



17 Managing Global Business

Matching

Definitions	Terms
A country that levies low corporate tax rates	Tax haven
Selling goods and services overseas for artificially low prices	Dumping
Agreeing to buy or sell an asset in the future at a price agreed upon today	Hedging
Producing goods or services in a way that preserves the natural environment for future generations	Ecological sustainability
An employment relations practice in which a business only appoints managers from its home country in its overseas operations	Ethnocentric staffing system
When a business owns businesses that produce inputs into its own value chain	Vertical integration
Selling products using the same name, images and packaging in markets throughout the world	Global branding
An employment relations practice in which a business appoints the most appropriate candidate for every job, regardless of national background	Geocentric staffing system
An asset whose value is determined by the price of another asset	Derivative
An organisational structure in which a business performs specific organisational tasks, such as marketing, employment relations, production and finance in different countries.	Global web

True or False

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

Multiple Choice

- 1 B Financial – methods of payment
- 2 D Financial – hedging
- 3 D Marketing – global branding
- 4 C Marketing – standardisation
- 5 A Employment relations – staffing system
- 6 D Operations – global web
- 7 C Ethical practice – tax havens
- 8 D Ethical practice – ecological sustainability
- 9 C Financial – hedging
- 10 A Ethical practice – dumping
- 11 A Financial – hedging
- 12 B Ethical practice – tax havens
- 13 D Marketing – differentiation
- 14 A Employment relations – staffing system
- 15 B Financial – credit risks

Short Answer Questions

Question 1

- (a) One method of payment Dubbo Footwear could use is prepayment. With this method, the importer pays for the goods in advance to guarantee quick delivery. The exporter thus is guaranteed payment.

If an exporter uses a documentary collection against payment method, the importer will only get documents and title to the goods once payment has been received by the exporter's bank.

- (b) If the dollar appreciates this could have two impacts on Dubbo Footwear. With an appreciation of the \$A, this makes it more expensive for foreigners to purchase, and thus our exports become more expensive, so the sales of Dubbo Footwear in overseas markets could fall. However, if Dubbo Footwear purchases inputs such as machinery from overseas, these will be relatively cheaper because it now costs less to buy foreign currency.

- (c) One financial risk arises from fluctuating exchange rates. A business can protect itself from this by using a hedging tool. Hedging is any scheme which protects a business from financial loss. For example, currency futures is an agreement between the buyer and seller to purchase and deliver a specified amount of currency at an agreed rate at an agreed time in the future.

Another financial risk is credit risk. This refers to the possibility that the importer may default on the payment after the goods have been shipped overseas. One way that a business could assess the potential of this risk is to check the importer's credit rating with an international rating agency such as Moody's. Another strategy would be to take out insurance through the Australian Government's Export Finance and Insurance Corporation.

Question 2

- (a) Vertical integration is the process of a business acquiring other businesses which either produce inputs for the purchasing business or buy its outputs. An example of this would be a steelworks which buys an iron ore mine and a steel fabricating plant.

- (b) The ethnocentric policy of appointing only Australian managers indicates poor employment relations policy. If the lack of suitably qualified overseas managers is a problem, then Ozy could train locals to fill these positions. Another indication of poor employment relations policy is the overt industrial action (strikes and pickets) in protest of the policy. This indicates poor communications with employees.
- (c) A disadvantage of using an ethnocentric staffing system is that managers from the home country have little understanding of the customs, culture and language of the host country and therefore do little to minimise the impact of cultural differences.

On the other hand, an advantage of using this system is that home country managers are more likely to understand company policy and culture and will be familiar with and easily interpret instructions from head office.

- (d) One way of overcoming a skilled labour shortage in the host country would be to employ locals in middle management positions and conduct intensive training and development activities to improve their management skills. Another method would be to adopt a geocentric staffing approach where people are employed on their merit regardless of nationality. Importing skilled managers from any source could solve the problem.

Question 3

- (e) One major benefit of global branding is the fact that the product is easily recognisable anywhere in the world. It becomes part of the producer's competitive advantage. Another benefit is that it can assist with customer loyalty, especially where the business has several different brand names to fit in with the country where a product is marketed but attaches to global brand or logo to the product
- (f) It is not always possible to take a product that is sold in the home country and sell it without modifications elsewhere. Market research will tell a business what changes need to be made to a product so that it will appeal to the tastes of consumers in a host country market as well as conform to host country laws and regulations. Some products (e.g. alcohol-based sweets or drinks) may not have a big market in an Islamic country. It is also important for a business to research the infrastructure available in the host country. A country with a low rate of telephone connections could pose a problem for computers and telecommunications.
- (g) Because the business produces apparel, with a global brand possibly identifying the company, franchising or licensing may have been one way of expanding into these markets, especially if the brand or logo is well-recognised (like the Billabong brand). The costs would be relatively small and franchises or licences could be sold to local producers.

Another method of expansion could have been foreign direct investment, where Swift actually set up a business in these countries. There are several advantages with this method:

- The business is a 'local' business
- Trade barriers such as tariffs and quotas can be avoided
- With a polycentric staffing policy using local managers, host country nationals may feel more comfortable about buying the product.