

# Topic Review

## Topic 5: Global Business

### Multiple Choice

- 1 B Managing global business – financial
- 2 D Managing global business – financial
- 3 A Managing global business – financial
- 4 C Specific influences on global business – financial
- 5 D Specific influences on global business – social/cultural
- 6 C Managing global business – marketing
- 7 C Global business strategy – reasons for expansion
- 8 A Global business strategy – reasons for expansion
- 9 A Managing global business – employment relations
- 10 A Managing global business – employment relations
- 11 C Management responsibility in a global environment
- 12 C Management responsibility in a global environment
- 13 B Management responsibility in a global environment
- 14 D Specific influences on global business – financial
- 15 A Global business strategy – methods of international expansion
- 16 B Managing global business – financial
- 17 C Specific influences on global business – financial
- 18 C Managing global business – operations
- 19 A Global business strategy – methods of international expansion
- 20 C Specific influences on global business – financial

### Short Answer Questions

#### Question 1

- (a) Prepayment, documentary collection, documentary credit
- (b) Credit risk is borne by any business that exports goods. There is the possibility that once the goods are in transit or received in an overseas location that the buyer will default in paying for the goods. One way of reducing this risk is to only allow title to the goods to pass to the buyer once payment has been guaranteed. Another way to reduce the risk is to insure the goods.
- (c) Hedging is any form of activity which is used to prevent loss in a financial transaction. It could involve the use of hedging tools such as forward cover or the use of derivatives to protect a business against loss. Some large multinationals may not need to hedge.
- (d) The best hedging strategy that Gianni's could use is currency options. By buying a currency option Gianni's has the right to exchange the foreign currency at a date in the future to access the proceeds of the sale at a price that is agreed to now. If the exchange rate of the Australian dollar moves favourably against the Canadian dollar and is better than the option price Gianni's does not have to use the option.

#### 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 rubber manufacturer purchases a retailer which sells rubber products.
- (b) The main considerations with sourcing are whether to make them or buy them. The option that a business chooses will be the one that provides the inputs on time and is consistent with the budgets that are part of the business's financial plan.
- (c) With a polycentric staffing method, the managers are selected from host country personnel and will have the advantage of understanding customs, culture and language of the host country. With ethnocentric methods, managers are selected from home country personnel and do not have the socio-cultural advantages of a polycentric selection system but accord with the business culture and management policy.
- (d) One factor that would be considered would be whether there was a shortage of skilled labour at the current location. If there is, then it is a question of costs. Is it better to relocate to where there is a good supply of labour or is it better to import the labour (assuming that there are no problems with labour mobility). Other factors to consider are variations in labour laws, and educational standards where the labour is being sourced from. Generally, a business would locate where the labour laws are most lenient and where the educational standards are highest.

### Question 3

- (a) A tax haven is a country with either a very low tax on company profits or, in the case of many nations, no tax on company profits at all.
- (b) A transnational corporation (TNC) can manipulate its profits and losses to minimise tax by moving inputs and production so that it makes losses in a high tax country and makes profits in the lowest tax environment. If a motor vehicle manufacturer sources inputs from high tax countries and sells its output in low tax countries, it can price its inputs at below cost, thus making a loss in the high tax country and paying little or no tax there. The assembly plant, being located in a low tax country has purchased its inputs cheaply from subsidiaries and can make and sell vehicles at a substantial profit which attracts much lower taxes.
- (c) Quite often, to pursue ecologically development as a goal can be quite costly and can reduce profit substantially. This can be an obvious conflict of business goals. If a business operates in a country with tough anti-pollution laws, the level of conflict is reduced, because any worthwhile business will make a genuine attempt to comply with the law. It is usually the case that a business will "get away with" what the law allows and this can create conflict between expensive anti-pollution measures (such as reducing smoke emissions from factories or ensuring that effluent discharge does not occur) and turning a blind eye to what the law allows. Many businesses may wish to have a "clean green" image to earn the reputation of being a good corporate citizen.