

00138

BBA

## **A**CKNOWLEDGEMENT

This report is an integral part of academic course curriculum. The intention of this project report is to provide a practical essence of Strategic Issue in IB, which ultimately helps to acquire broader knowledge. Without support from a group of persons it was quit impossible for me to prepare this paper. I cordially like to thank them.

My cordial thanks and gratitude to M Sayeed Alam, Senior Lecturer, Department of Business Administration, East West University, for giving me the chance to conduct my project paper under his supervision and guidance and information were of utmost assistance for the successful completion of this report.

15 August 2007

M Sayeed Alam  
Senior Lecturer  
Department of Business Administration  
East West University

Subject: **Submission of Report on “Strategic Issue in International Business & Bangladesh Perspective”**

Dear Sir

Here is the report on **“Strategic Issue in International Business & Bangladesh Perspective”** as an integral part of East West University course curriculum. It is my great pleasure and gratitude that I got the opportunity to prepare the report under your kind supervision and guidance.

This report highlights strategic management internationally or globally. Also it focuses on strategic issues in Bangladesh perspective. To prepare this report, I have given my level best effort despite some limitations.

Preparation of the report was a valuable experience for me and it helped me a lot to enrich my knowledge. I believe such a remarkable proposal will augment my research career.

Thank you

Sincerely you

Rebas's  
Debasis Sarker Prince

ID# 2004-1-10-062.



# Table of Content



<b>1. Introduction.....</b>	<b>1</b>
<b>2. Dicism to go International.....</b>	<b>3</b>
<b>3. Assessing potential foreign market.....</b>	<b>5</b>
3.1. General Consideration.....	5
3.2. Specific Consideration.....	9
<b>4. Modes of International Business.....</b>	<b>10</b>
<b>5. Timing.....</b>	<b>12</b>
<b>6. How to Compete.....</b>	<b>14</b>
<b>7. Implementation.....</b>	<b>16</b>
7.1. Marketing Issue.....	17
7.2. Financial Management.....	18
7.3. Logistic.....	19
7.4. SHRM.....	19
<b>8. Competitive advantage.....</b>	<b>28</b>
<b>9. Strategic management explored.....</b>	<b>30</b>
9.1. Strategic Intent.....	31
9.2. Organizational Mission.....	32
9.3. Technology Revolution.....	34
9.4. Globalization & Global Economy.....	35
9.5. Competition.....	36
9.6. Future Challenges.....	39
<b>10. Strategic issue in Bangladesh.....</b>	<b>41</b>

10.1. Reform & liberalization.....	41
10.2. An attractive investment Destination.....	42
10.3. Security for Investment.....	43
10.4. Private investment trend.....	43
10.5. Export policy.....	44
10.6. Objectives.....	45
10.7. Strategies.....	46
10.8. Potential Sectors in Bangladesh.....	48
10.9. EPZ.....	54
<b>11. Conclusion.....</b>	<b>57</b>
<b>12. Reference.....</b>	<b>58</b>



## Executive Summary

Now a day the business world is very much competitive. Previously people thought locally, after that internationally and now globally. So competition increased and situations become difficult day by day because perspective is changing. The main focus of the report will be analyzing the current international business in perspective of strategic management. Companies moving into international markets frequently duplicate the competitive strategies that they have implemented in their home markets. This is again a relatively passive approach to engaging in international business. For many companies, it may not be possible to alter successfully their basic approach towards marketplace competition; however, it is still important to evaluate beforehand whether the organization can successfully compete in foreign markets in the same way that it is competing domestically. Expansion into one or more foreign markets offers greater profit potential than other possible uses of the organization's scarce resources. Managers often equate profit potential with the potential size of foreign markets, as we shall discuss below; however, perhaps the most important determinant of whether expansion into international markets is likely to be profitable is whether the organization possesses competitive advantages that can be relatively easily exploited in foreign markets. The cost of expanding into individual foreign markets will depend upon how the organization chooses to compete in each market. It is difficult to generalize about the factors that make one foreign market more desirable than another; however, several rules-of-thumb apply when relating an organization's competitive advantage to the attributes of foreign markets. If relatively detailed screening of potentially attractive foreign markets leads to a preliminary conclusion that going international could well be a profitable strategy, the next major stage in the analysis is to identify a relatively low cost method of supplying the foreign market. 'Standard' competitive advantages identified in Industrial Economies. These relate to other firms making a similar product in the same market. Competitive advantages arising as a direct result of their international activities. The process of strategic management focuses on how an organization gains awareness of and determines its' purpose for being; its' objectives and aims; as well as the actual planning, implementation and evaluation of how successfully the objectives were realized. Bangladesh is a moderating influence in a consistently volatile and often mutually hostile South Asian scenario. The current macroeconomic situation in the country is, by and large, stable, characterized by a manageable fiscal deficit and a quite low current account deficit.



# 1. INTRODUCTION



## 1.1. Background of the Report

As a part of my project outline, I was required to prepare a project report. This report is about "Strategic Issue in International Business & Bangladesh Perspective". My instructor **Mr. Sayeed Alam** assigned me to prepare this report in Summer 2007. This was a lucrative topic to learn about real life strategic issue in international business. I was very eager to take this report because of the attractiveness of this topic.

## 1.2. Objectives of the Report

The main focus of the report will be analyzing the current international business in perspective of strategic management. My objective is to provide a formal report on the strategic implementation globally and also in Bangladesh.

My distinct objectives are:

- To find out how the foreign market will be assessed
- Time of being international
- Competition & implementation of strategic issue internationally
- Strategic issue in Bangladeshi

## 1.3. Scope of the Report

This report provides an overall picture about strategic management internationally.

## 1.4. Limitation of the Report

When I was preparing my project paper I have faced many difficulties. Data collection was the major task for me. This was not readily available. I have gathered data from many books and web pages. This was an exciting topic to prepare a standard project paper. I had not clear idea about this topic. There were not enough studies on this topic. But, I have tried my best to prepare this paper. My effort will be successful when this paper will approach your desired level.



## 1.5. Why Strategy?

Organizational strategy is concerned with a number of issues. One issue is the broad objectives of the organization. For-profit organizations will obviously have financial profits as an objective. However, some organizations may have other broad objectives including interacting with their "stakeholders" in a "socially responsible" way. Reduction of shareholder risks may be yet another objective of many organizations. One task facing management, therefore, is to articulate the enterprise's broad objectives. For the purposes of the following discussion, we will assume that at least one prominent objective that all for-profit firms have in common is to earn an "appropriate" rate-of-return on invested capital.

A second strategic issue that all organizations face is the selection of businesses and markets in which to participate. This is called "corporate strategy". In broad terms, organizations can specialize in a small number of businesses and geographic markets, thereby following a "niche" strategy. Alternatively, organizations may choose to compete in a broad range of product and geographic markets, thereby following a diversification strategy. For an increasing number of companies, an issue that arises is whether they should enter foreign markets or "go international", and, if so, which specific markets should be entered. Many companies allow this issue to be decided by events rather than by taking a proactive stance towards it. For example, companies often begin to sell in foreign markets because foreign distributors express a willingness to handle their product, or because they have some excess capacity. One basic message of this chapter is that opportunistic commitments to international business may occasionally prove successful, but they are more likely to be unsuccessful compared to a considered decision to participate in foreign markets accompanied by a coherent international business strategy.

A third strategic issue is how to compete. There are two generic types of competitive strategy originally identified by Michael Porter.<sup>1</sup> one is cost leadership. This strategy emphasizes low-cost production and distribution so that the business can profitably under-price its rivals. A second is product differentiation. This strategy attempts to out-compete rivals by offering product varieties that are more appealing to customers and for which customers are willing to pay premium prices. While one might think that a blend of the two strategies would be ideal, Porter argues that very few companies can successfully

implement both strategies at the same time, since they usually require fundamentally different types of skills and resources for successful implementation.

Companies moving into international markets frequently duplicate the competitive strategies that they have implemented in their home markets. This is again a relatively passive approach to engaging in international business. For many companies, it may not be possible to alter successfully their basic approach towards marketplace competition; however, it is still important to evaluate beforehand whether the organization can successfully compete in foreign markets in the same way that it is competing domestically. Foreign markets usually differ in fundamental ways from domestic markets, so that a successful competitive strategy for the latter may not be at all successful for the former.

## 2. THE DECISION TO GO INTERNATIONAL



Figure 1

### **Rationales for Going International**

- Increase profits (obvious but not easily achieved).
- Reduce risk
- Offset declining domestic sales
- Utilize excess capacity
- Exploit economic and political connections abroad

Above figure summarizes a number of frequently cited motives for organizations to become involved in international business. The most obvious motivation, as noted earlier, is a belief that expansion into one or more foreign markets offers greater profit potential than other possible uses of the organization's scarce resources. Managers often equate profit potential with the potential size of foreign markets, as we shall discuss below; however, perhaps the most important determinant of whether expansion into international markets is likely to be profitable is whether the organization possesses competitive advantages that can be relatively easily exploited in foreign markets. Thus, the first step in assessing whether going international is a profitable corporate strategy is to identify the organization's sustainable competitive advantage(s) and the "portability" of those advantages into foreign markets.





**Figure 2**  
**Sources of Sustainable**  
**Competitive (Profit) Advantage**

- Unique and proprietary product or design
- Well-known brand name or trademark
- Exclusive access to key distribution channels
- Proprietary technology that conveys low cost
- Cost advances associated with size and scale
- Cost/quality advantages with access to superior inputs

This Figure provides some examples of sustainable organizational competitive advantages. These include proprietary technologies and product features, and well-known brand names and product trademarks. Other advantages include exclusive access to key

distribution channels, possession of superior inputs such as skilled labor and/or cost economies associated with large scale and scope. For smaller companies just getting started in international business, most of the potential advantages listed in Figure 2 do not apply. The most likely source of a sustainable competitive advantage will be a unique product that may or may not be protected by intellectual property laws. In these cases, the analytical challenge for management is to identify foreign markets that are likely to be receptive to the organization's unique product(s).

Returning to Figure 1, a second frequently cited reason for going international is to diversify risk. The relevant notion is that a company should have its competitive eggs in more than one geographic basket. In that way, if the domestic economy falls on hard times, better-performing foreign economies might serve as a counter-balance dampening the slide in the organization's overall sales and profits.

While it is likely that the ups and downs of foreign markets may not be perfectly synchronized with the ups and downs of the domestic market, it is unlikely that there is much overall risk-reduction advantage associated with going international. For one thing, most small businesses expand into adjacent geographical markets. For example, many small U.S. companies initiate their international business activities by selling into the Canadian market. Since the Canadian economy is closely tied to the U.S. economy, the business cycles in the two countries are highly correlated, and there is little diversification against business cycle fluctuations by doing business in Canada. For another, expansion into foreign markets frequently imposes political or other risks that are unrelated to the business cycle. This is especially true for U.S. companies that are used to operating in an



environment where property rights receive strong protection, and tax laws and regulations are subject to legal challenge and due process considerations. Many foreign markets offer a much less friendly environment for owners of corporate assets, especially foreign owners.

In short, while benefits from geographical risk diversification cannot be dismissed out-of-hand, they are unlikely to present reliable guidance to managers trying to decide whether or not to enter foreign markets. It seems preferable to focus on profitability as the main motive for going international. Similarly, other frequently cited motives listed in Figure 1 are inappropriate in many cases. For example, adverse developments in the domestic economy, such as declining sales and excess capacity, may be exacerbated rather than ameliorated by international expansion. Specifically, management time and scarce organizational resources may be diverted into marginal foreign operations when a better use of management's time and organizational resources would involve trying to improve the company's performance in the domestic market. In summary, the key strategic question that management should address before embarking on an international expansion is whether the competitive advantages it enjoys in the domestic market are profitably transferable to foreign markets.

### 3. ASSESSING POTENTIAL FOREIGN MARKETS



#### 3.1. GENERAL CONSIDERATIONS

The preceding section implicitly identified the two main characteristics of potentially profitable foreign markets:

1. The firm's sustainable competitive advantages fit closely with key attributes of the foreign economy.
2. The costs of expanding into the market are relatively low.

As noted in the preceding section, the specific attributes of a foreign economy that are especially attractive will depend upon the organization's sustainable competitive advantages. Likewise, the cost of expanding into individual foreign markets will depend upon how the organization chooses to compete in each market. In short, it is difficult to generalize about the factors that make one foreign market more desirable than another; however, several rules-of-thumb apply when relating an organization's competitive advantage to the attributes of foreign markets. These rules-of-thumb are summarized in Figure 3.

**Figure 3**

**The Competitive Advantage "Lens"**

- **Product differentiation is more profitable**
  - high income countries
  - faster growing countries
  - larger countries
- **Consumer products are more affected by "cultural distance"**
- **Tariff and non-tariff barriers particularly affect "price sensitive" products**

One rule-of-thumb is that a product differentiation strategy is more likely to be profitable when implemented in high-income, large, diverse and fast growing markets. Buyers in these types of markets are likely to have the financial means to pay relatively high prices for unique products. They are also likely to desire unique products, both because a taste for superior quality is strongly related to income levels, and because large potential markets may exist in large and diversified economies, even for very specialized products.

A second rule-of-thumb is that demand for consumer products is more likely to be affected by cultural differences than the demand for industrial products. Since industrial products are typically used as inputs into further processing, the industrial buyer has a relatively small set of criteria, e.g. how well do the inputs work and what do they cost? Household buyers are more likely than industrial buyers to pay attention to additional considerations such as the aesthetic features of products, promotional activities of sellers and so forth. At the same time, the reaction of household consumers to specific product features and the like will tend to vary significantly across different cultures. Moreover, while industrial processes are not identical from country to country, they are certainly much more homogeneous from country to country than are the environments surrounding household purchasing decisions.

A third, fairly obvious, rule of thumb is that the presence of relatively high tariffs will make it difficult for an exporter to compete by being a low price seller in the market. Put in other words, it will be difficult to implement successfully a cost-leadership competitive strategy in countries that heavily tax foreign goods being imported into those countries.

Notwithstanding our earlier caveat that it is difficult to generalize about what makes any foreign market a good fit with an organization's sustainable competitive advantages, there are certain attributes of foreign markets that are bound to be relevant to most organizations considering an international expansion. Several of these attributes are listed in Figure 4.

Physical characteristics of a country such as its climate and topography may also be of some general relevance to a market screening process. For example, if a country enjoys good access to deepwater ports, it should be relatively cheap to ship products into and from that country. Likewise, if a country is relatively flat and densely populated, overland transportation and other distribution-related costs are likely to be relatively low. On the other hand, specific climatic and related features will ordinarily have greater relevance for some organizations than others. As an obvious example, a manufacturer of surfboards is unlikely to find promising markets in land-locked countries.

Other characteristics that can help management to identify promising from unpromising potential foreign markets include attributes of a country's political regime. As noted above, the presence of tariffs and non-tariff barriers makes imports less competitive with domestically produced goods, and this competitive handicap is particularly serious for imports that attempt to compete on the basis of price. Other government policies, such as business regulations and licensing requirements, can tilt the competitive playing field in favor of home producers and against foreign exporters. For example, regulations that prevent the use of certain chemicals that are used to color or flavor food products might effectively eliminate any competitive advantage that a foreign company relying on those chemicals might enjoy in the regulated market. Moreover, extensive government regulation in a number of business areas might signal a general state of acrimony between business and government which would make that market a less attractive candidate for international expansion, all other things constant.

Figure 4

**Broad Initial Screening Criteria**

- Total GDP
- GDP per capita
- Total population demography
- Political stability
- Climate/topography
- Transportation/logistical systems
- Tariff/non-tariff barriers
- Government laws and regulations



Political stability is a characteristic that many businesses consider when comparing different foreign markets. In fact, there are various conceptions of political stability, as well as disagreement about the relationship of political stability to corporate profitability. To the extent that political instability is associated with unpredictable and significant changes in a country's legal structure, instability can be expected to impose significant costs and uncertainties upon managers attempting to plan and implement business strategies for that country. If political instability is accompanied by violence and economic chaos, the associated costs in terms of property damage, lost sales and production disruptions are likely to be severe. Indeed, the risks are high of having the organization's business assets, including its trademark, simply expropriated by others in an essentially lawless society. On the other hand, frequent changes of government, which has been characteristic of relatively law-abiding countries such as Italy, may not be a meaningful manifestation of political instability, as least so far as doing international business is concerned.

**Figure 5  
Information Considered Important  
By International Executives**

- **Macro Data**
  - Tariff and non-tariff measures
  - Government trade policy
  
- **Micro Data**
  - Local laws, regulations and standards
  - Size of market
  - Competitive activity
  - Distribution system

In fact, the broad screening criteria reported in Figure 4 include a number of specific criterion that are frequently employed by international companies as reported in Figure 5. In particular, tariff and non-tariff barriers, local laws and regulations and the overall size of the market are frequently considered criteria. Managers of international companies also apparently consider export and import patterns as guides to how "open" individual countries are to foreign trade. Not surprisingly, significant attention is paid to the presence of foreign competitors and other "microeconomic" features of a foreign market such as the nature of the distribution system in that market.



## 3.2. SPECIFIC CONSIDERATIONS

If the broader economic attributes of a potential market seem favorable and, in addition, offer a promising fit with the organization's sustainable competitive advantages, the next plausible analytical step for management is to estimate the sales and profit potential of that market. Several microeconomic considerations are particularly relevant to such an analysis, and they are summarized in Figure 6.

Figure 6  
**Estimating Foreign Sales Potential**

- Competitors' product prices and characteristics
- Market structure
  - Number of rivals
  - Size of distribution of rivals
  - Barriers to entry
- Distribution channel structure (access to customers)
  - Customer segments

One extremely important consideration is the extent and nature of the competition that the organization will face in a specific foreign market. There are several important structural and behavioral elements that provide a use- full summary of competitive conditions in foreign markets. The structural elements include:

1. The number of rival firms producing relatively close substitutes for the product(s) that the organization is considering selling in the foreign market.
2. The size distribution of rivals.
3. The nature of existing distribution channels (access to customers).
4. The ease with which other firms can enter the foreign market.
5. The number and size distribution of potential buyers.

These structural elements provide insight into the likely intensity and nature of competition that the organization will face in a foreign market, as well as the market power of buyers. All else constant, a foreign market is likely to be more profitable, the fewer, smaller and more fragmented are the existing sellers in that market. The existence of competitive and efficient distribution channels is also likely to contribute to the profitability of foreign markets. At the same time, if successful and profitable entry by the organization is unlikely to trigger imitative entry by new rivals, the profits earned in the foreign market can be perpetuated over time. Imitative entry is less likely, the larger the costs and risks faced by would-be entrants.

Relevant behavioral features of a prospective foreign market primarily encompass the competitive strategies of rival sellers including the prices they charge, the key features of their products and the nature of their advertising and promotional efforts. A foreign market will be more profitable if the organization can implement a competitive strategy that clearly differentiates its product offering from those of its rivals, and if its offering fills an important gap in the marketplace. For example, if the organization cannot profitable under-price its rivals, it should be able to offer unique product and service features that more than justify the higher prices it charges. The identification of potentially profitable market niches, therefore, usually obliges management to identify how consumers in a prospective foreign market differ, and whether and how different consumer demands are being addressed by current suppliers. As noted above, the fact that an organization enjoys a profitable niche in the domestic marketplace does not ensure that its competitive strategy can be successfully replicated in a foreign market. Consumer tastes and preferences must also be similar in the foreign market, and there should be relatively limited effective competition in the market niche served by the organization.

## 4. MODES OF INTERNATIONAL BUSINESS



If relatively detailed screening of potentially attractive foreign markets leads to a preliminary conclusion that going international could well be a profitable strategy, the next major stage in the analysis is to identify a relatively low cost method (or mode) of supplying the foreign market(s).

The main generic modes of international business are summarized in Figure 7. For the vast majority of small companies just starting out in international business, the exporting or franchising/licensing modes are likely to be the most cost-effective. This is because they can be implemented relatively quickly and with relatively small "up-front" costs. Conversely, setting up a joint venture agreement or a foreign affiliate can be a time consuming process with the requirement for substantial prior knowledge of the foreign market. The latter modes also usually oblige the organization to assume absolutely and relatively large financial commitments that will generally be unrecoverable in the event that the foreign market ultimately proves unattractive. On the other hand, strategic alliances and especially sole ownership of the overseas' business provides management with substantial, perhaps total, control over how the organization's products are produced and/or marketed abroad. It also contributes to the establishment of an identity for the organization in the foreign



**Figure 7**  
**Modes of International Business**

- Exporting
- Licensing/franchising
- Joint ventures/other strategic alliances
- Establishing/acquiring a wholly owned business

market that, in turn, could assist the organization to function independently of foreign partners in the longer-run.

Obviously, if these latter considerations are of critical importance to the success of the organization's international business endeavors, the more expensive and complex modes of international business may make sense to implement right from the beginning of the organization's international expansion. Ordinarily, however, it is desirable to utilize the less costly and administratively simpler modes of international business until the organization has reached a fairly substantial size in the international marketplace.

As noted above, most organizations will choose exporting as the initial mode of international business. In this regard, management can choose between indirect versus direct methods of exporting. The former involves choosing an agent who acts as an intermediary in foreign markets so that the exporting company does not deal with foreign customers and distributors. For example, export management companies specialize in performing international business services as commission representatives or as distributors. In some cases, they will simply take possession of the good from the exporting company and then market it internationally on their own. In other cases, they help develop foreign business and sales strategies for the exporting company and establish contacts abroad. Trading companies can often provide the same services as export management companies.

When engaged in direct exporting, the organization itself assumes responsibility for developing foreign business strategies and for cultivating distribution channels and customers in the foreign market. There are benefits and costs associated with each broad approach to exporting. For example, a direct approach leads to the building-up of contacts in and knowledge about the export market. It therefore enhances the organization's own ability to match its competitive strategies to the characteristics of foreign markets. This, in turn, should lead to a stronger longer-run position for the organization in export markets, and a reduced need for the organization to "share" the potential profits of foreign markets with exporting partners. On the other hand, it is ordinarily more costly, at least in terms of



direct outlays of money, as well as more time-consuming, to undertake direct exporting. As a result, many companies choose to export indirectly in the early stages of their international business expansion and then ultimately undertake direct exporting once they have established a viable, long run export market.

## 5. TIMING THE INTERNATIONAL BUSINESS DECISION



Having identified a potentially profitable international business expansion strategy, management must then face the issues:

1. When to implement the expansion strategy (timing) and
2. How to implement a successful competitive plan. In this section, we consider the first of these two issues.

On the surface, it would seem that international expansion should proceed as quickly as possible as long as it is expected to be a profitable strategy. Moreover, there may be certain advantages associated with making an international commitment sooner rather than later. For example, by being an early entrant into a foreign market, the organization might be able to "tie-up" preferable distribution channels, thereby making it more difficult for rivals to enter that foreign market. As another example, it might be easier to attract and hold foreign customers if the organization enters the market before other, better known rivals enter. These types of benefits from entering a market sooner rather than later are known as "first-mover" advantages.

On the other hand, there are sometimes strong advantages to delaying a business decision, especially one that involves significant commitment to a foreign market. The primary advantage is that delay may permit management to gain valuable information that, in turn, increases the likelihood of making a profitable decision. For example, recent economic turmoil in Asia has created substantial uncertainty about when Asian economies will recover and how strong that recovery will be. Obviously, firms that delay making investments in Asia will have more time to assess the likelihood of a strong economic recovery in Asia. It is, therefore, less likely that those firms will expand into Asian markets only to find that their international expansion is unprofitable because of continued weak economic conditions.

In short, there are both benefits and costs to "fast-tracking" an international business commitment. The benefits are associated with first-mover advantages. The costs are



associated with foregoing additional information that could help management to choose more profitable alternative strategies. While the magnitude of the benefits and costs will vary from case-to-case, certain broad generalizations can be made:

1. There is a larger benefit to waiting in cases where the required investment is "irreversible"; that is, where most or all of the investment will be unrecoverable if the international project does not work out. Costs that are not recoverable are known as "sunk" costs. When sunk costs are relatively large, the potential financial risks are commensurately large, and there is, therefore, greater potential benefit to gathering additional information in order to reduce the possibility of investing capital in a project that will ultimately prove unsuccessful.
2. There is a larger benefit to waiting in cases where the organization's sustainable competitive advantages are not quickly eroded through entry and expansion of rivals. For example, the possession of some unique technology may enable the organization to delay entering a foreign market with no significant loss of its competitive advantage in that market. On the other hand, if rivals gain strong first-mover advantages by being early entrants into a market, and if those advantages are not offset by the advantages possessed by the organization, such as superior technology, delay might render future expansion into that market permanently unprofitable for the organization.
3. There is a larger benefit to waiting in cases where useful information is more likely to be revealed with the passage of time than with experience gained from operating in the international market. This point is relatively obvious. If management's perspective on the likely profitability of an international business opportunity will primarily be sharpened by first-hand experience with the market in question, then delaying the international expansion, *per se*, will provide little, if any, additional benefit. An appropriate strategy in this context might be to undertake a measured expansion in the international market, acquire additional information, and then proceed with further expansion, or not, depending upon whether the new information supports making additional financial commitments to the international market.

In all likelihood, since most small organizations will expand into international markets through the exporting mode, the sunk costs of entering foreign markets will be relatively low, unless expensive production and marketing changes must be undertaken to make the



organization's product suitable for the foreign market. Hence, the potential costs of quick expansion abroad will often be relatively low. Nevertheless, there could still be substantial benefits to delaying international expansion if conditions in foreign markets are highly uncertain (economically or politically), and if this uncertainty is likely to be resolved in the foreseeable future. The challenge for management in this circumstance is to identify how sensitive their profit estimations are to changes in those underlying economic and/or political conditions, as well as the types of competitive disadvantages that will accrue by delaying international expansion.

## 6. HOW TO COMPETE



In this section, we consider the selection of a competitive strategy for foreign markets. As noted in an earlier section, there are specific generic strategies for competing. The potential strategies are summarized in Figure 8. There are two dimensions portrayed in Figure 8. One (along the vertical axis) identifies a niche versus a multi-market approach towards competition. The niche strategy identifies an approach in which the organization concentrates on a relatively small number of product markets and geographical markets in which to compete. For example, the most focused strategy in this context would be to sell a single product in a single foreign market. Alternatively, the organization might choose to sell one or more products in a number of foreign markets.

Figure: 8

### NATURE OF COMPETITION

		Cost leadership	Product differentiation
SCOPE OF PARTICIPATION	Narrow		
	Broad		

The choice of a niche versus a multi-market strategy depends upon two critical factors:

1. Is the organization's sustainable competitive advantage easily "transferable" into other product or geographical markets? If it is, it might be relatively economical to compete in a number of foreign markets at the same time and/or in a number of product markets within one or more foreign countries.
2. On the other hand, if the organization must create a different basis for competing successfully in each of the geographical or product markets in which it competes, it would probably be unfeasible for the organization, especially if it is relatively small, to compete successfully other than through a niche approach.



The nature of the foreign markets being considered can also influence the net benefits of choosing a niche versus a multi-market strategy. Some of the relevant factors are listed in Figure 9. For example, if foreign markets are expected to grow rapidly, the organization may itself have lots of scope for rapid growth while concentrating its sales efforts on a single market. On the other hand, if foreign markets are expected to grow slowly, an ambitious organizational growth plan may oblige it to enter a number of foreign markets at about the same time. If there is a high need for promotional and product adaptation, multi-market competition could prove uneconomical. This is because the need for such adaptation signals heterogeneity of foreign markets. The latter, in turn, makes it less likely that organizational sustainable advantages in one market will be easily transferable to other markets. On the other hand, if the organization's reputation or other intangible assets "spillover" across geographical markets, a multi-market strategy makes more sense. Finally, if it takes a long-time for competitors to develop a "first-mover advantage", the cost to the organization of delaying entry into lower priority foreign-markets may not be great.

The horizontal axis in Figure 8 identifies a second dimension of competitive strategy: competing as a cost-leader versus competing by differentiating the organization's product so that consumers are willing to pay more for it than for other products. Either strategy can be successful depending upon the nature of the foreign markets being considered. As noted



earlier in the chapter, product differentiation tends to be a more successful competitive strategy in relatively high-income countries. Relatively wealthy consumers are more willing and able to pay for preferred attributes of a product than are their lower – income counterparts. Similarly, larger economies generally have a more diverse array of consumers, thereby offering more potentially profitable niches to be filled by differentiated products. Industrial buyers in wealthy countries are also usually more willing to pay a premium for better quality inputs, since they can often pass the higher costs of those inputs onto their own customers.

Obviously, an organization’s capabilities must be consistent with the competitive strategies it chooses. For example, competing as a cost leader generally puts a premium on the organization possessing above-average engineering and production management skills. It also frequently implies operating at a relatively large scale so that the efficiencies associated with economies of scale and learning-by-doing can be appropriated. On the other hand, successful product differentiation tends to put a premium on the possession of above-average technological and marketing skills.

Organizations will typically implement the same competitive strategy (i.e. cost-leadership versus product differentiation) in foreign markets that has been successful in its home market. It is very unlikely that the typical small-scale firm will be able to implement successfully, say, a cost-leadership strategy in a foreign market and a product differentiation strategy in its home market. This reality makes it even more important that management correctly assesses the likelihood that the competitive strategy used in the home market is successfully transferable to a foreign market.

## 7. IMPLEMENTATION



Even if the same competitive strategy is used in the foreign market as in the home market, it is unlikely that the organization will operate exactly the same way in both markets. Certain alterations will

Figure 10

### Implementation Issues

- Standardize or differentiate?
  - Product features
  - Pricing
  - Promotion
  - Distribution
- Finance
  - Choice of currency
  - Managing currency risk
  - Working and long-term capital management
- Logistics
  - Transportation/insurance/documentation
  - Duties/customs



inevitably have to be made to ensure the successful implementation of the organization's competitive strategy. Figure 10 lists several issues that the organization will need to address in order to implement competitive strategies in foreign markets.

## 7.1. Marketing Issues

One set of issues relates to marketing initiatives. For example, it is unlikely that the product features will be valued identically in both the home and the foreign market. Differences in tastes and preferences across geographical markets may dictate that the organization make certain modifications to its product in order to sell it successfully abroad. In some cases, this might be quite easy to do, especially if the required changes are primarily "cosmetic". On the other hand, in other cases, fairly profound changes may be required to the design and operation of the product. In this latter case, there may be a substantial risk associated with modifying the product for a foreign market. Namely, it may lead to confusion in the home market about the quality and consistency of the organization's product, especially if the version of the product for the foreign market is qualitatively inferior, in a meaningful way, to the version sold in the home market. In this case, management must find a way to keep the identities of the various versions of the product clearly separated in the minds of consumers, e.g. separate brand names for the products.

Other aspects of marketing that frequently must be modified when implementing a foreign expansion include pricing, promotion and distribution. Obviously, consumers' ability and willingness to pay for a product will vary with the economic circumstances of a country including income levels and degree of competition with other suppliers. Hence, what might be a relatively low price for a product in the home country could be a relatively high price in certain foreign markets and vice-versa. Successfully competing in foreign markets might therefore oblige the organization to charge different prices in foreign markets compared to the home market. The trick again is to ensure that this does not create confusion in the minds of consumers who may think that the lower priced version of the product is "inferior" to the higher priced version. At the same time, management must be able to prevent or discourage "arbitrage", i.e. grey marketers buying the product in the low price market for resale in the high price market. If such arbitrage occurred on a wide-scale basis, it could threaten the survival of the organization's distribution network in the high-price country, since distributors in the high price country would be underpriced by grey market sellers.

Product promotion, including advertising, will ordinarily require some modification for foreign markets given differences in language, customs and so forth. Channels of

distribution may also have to be modified. For example, large warehouse-type retail outlets may be scarce in certain foreign markets while they may be the main distribution channel for the organization's product(s) in the home market. It is not possible to identify and discuss all of the possible modifications to marketing that should be considered when entering a foreign market.<sup>3</sup> Suffice to say that management must expect to face potentially difficult tradeoffs between the increased costs and complications of addressing certain unique features of foreign markets, and the reduced probability of competitive success by adhering closely to the competitive strategy employed in the home country.

## 7.2. Financial Management

Financial management issues are also associated with implementing an international expansion strategy. Most obviously, the organization will ordinarily need to deal in foreign exchange if it sells or buys goods abroad. In many cases, an American firm may be able to price its products in U.S. dollars; however, if it was willing to price in the local foreign currency, it could gain a competitive advantage, since foreign customers or suppliers would undoubtedly prefer to do business in their own local currencies.

To the extent that management chooses (or is obliged) to do business in a foreign currency, certain risks will be imposed on the organization. In particular, unexpected changes in the values of foreign currencies can affect the profitability of doing business internationally by unexpectedly changing the home currency value of future foreign currency-denominated cash inflows and outflows. This implies that organizations will need to consider implementing foreign exchange "hedging" strategies to mitigate the adverse consequences of unexpected and profit-reducing exchange rate changes. It is beyond the scope of this overview to go into further details about foreign exchange hedging strategies.<sup>4</sup> It must suffice to say that organizations may wish to seek the assistance of available expertise in the banking or brokerage communities to design and implement a foreign exchange hedging strategy.

As a related point, international operations may also entail the accumulation of short-term and long-term assets and liabilities that must be managed. While the principles of balance sheet management do not change fundamentally across geographical markets, differences in economic conditions from country to country may oblige management to treat foreign assets and liabilities differently from domestic assets and liabilities. An obvious example is provided by countries where there is some significant risk of governments imposing

restrictions on the transfer of foreign-held funds out of their countries. In such circumstances, foreign companies will find it inadvisable to hold accounts receivables and other short-term assets for as long as they might ordinarily hold such assets in their home market. Other such examples can be cited, but the main point, again, is that international business management extends to virtually all aspects of the financial management activity in more or less subtle ways.

### 7.3. Logistics

The last example of strategy implementation that we will mention involves logistics including all aspects of transporting products to and from foreign markets. There are a host of practical issues that must be dealt with in this regard including proper documentation for customs purposes, arranging for insurance, obtaining agreement with the customer regarding who will pay for shipping and insurance and where the goods are to be delivered and so forth. Where the organization uses the services of an export agent, the latter will deal with most or all of these issues. Nevertheless, management should be aware of the relevant logistical details in order to evaluate whether the export agent's services are satisfactory and worth the money charged. Many of the logistical details involved in shipping goods within the home country are substantially the same as those involved in shipping goods internationally. Hence, management's primary focus should probably be on the unique complexities associated with the customs and border-crossing regimes in the foreign markets it is considering entering. Assistance in these matters is frequently available from government agencies in the home country.

### 7.4. Strategic Global Human Resource Management

The dramatic and discontinuous changes taking place in the global environment have contributed to the evolution of traditional multinational corporations (MNCs) into global organisations that are more of a network nature (Gimeno & Woo 1996, Wolf 1997, Galunic & Rodan 1998, Westney 1999). The global network form of organising roles and activities infuses into the firm a heightened need for cross-functional interdependence, which in turn, can increase role ambiguity for a human resource manager (Grimm & Smith 1997). On the one hand, an important function of a global human resource manager is to shape a culture of developing external linkages (i.e., to local organisations and critical stakeholders) for a global organisation. On the other hand, it is vital the global human resource manager facilitates the integration of



internal functional (i.e., international human resource management) and crossfunctional (i.e., global marketing, R&D and operations) relationships within the various competency centres of the global organisation (Mudambi & Helper 1998). Moreover, the expanded number of relationships needed in both the internal and external global network settings further increases the complexity of establishing an appropriate global human resource system (Zucker 1987).

## 7.5. Conceptualization of the Changing Role of Human Resource Managers within Global Organizations

Successful formulation and implementation of a corporate strategy for managing global operations requires a commensurate strategy for managing international human resources (Bartlett & Ghoshal 1992, Schuler, Dowling & De Cieri 1993, Beatty & Schneider 1997). Existing SIHRM frameworks describe policies and practices focused on aligning the strategic initiatives of the organisation with the development of global managers while simultaneously managing the tension between integrating global operations and achieving local responsiveness (Schuler et al. 1993, Taylor, Beechler & Napier 1996). Within these frameworks, a SIHRM system is viewed "as a way for MNCs to effectively manage and control their overseas operations" (Taylor et al. 1996: 560). Moreover, existing SIHRM models, although systematic in their assessment, inadequately address strategic international human resources management in the network form of organisation. Rather, the primary focus is on explaining the practices and policies that MNCs use to coordinate and control the hierarchy of their dispersed global operations (Welch 1994, Tayeb 1995).

Global organisational networks are viewed as dependency structures among geographically dispersed organisations that are interrelated through both formal and informal ties across varying levels of ownership. This broad definition reflects a holistic or systemic approach consistent with the integrated view of the formation of relationships across borders and the flow of goods and services to the global market place. By conceptualising a cross-border inter-organisational network beyond a set of functional and relational activities performed by downstream and upstream stakeholders in the global organisation, it can be proposed that a definition of an integrated global organisation encompasses the global network of facilities, activities, and social relationships that performs a multitude of integrated value-adding

functions. Therefore, the global network construct can be used to examine not only the tangible network design elements of the global organisation (i.e., webs of facilities and product development ties and activities) (Mabert & Venkatarmanan 1998), but also to emphasise the social infrastructure and human activities and relations envisioned, built and maintained by global human resource managers.

Global human resource managers are required to enact HRM systems within socially rich cross-border network structures (Welch & Welch 1993, Tung 1994, Stroh & Caligiuri 1998). The primary activities of a global human resource manager involve selecting appropriate global human resource strategies, influencing the operating context of the global organisation, and providing a leadership role in the cultural change of the organisation under conditions of accelerating strategic ambiguity. When enacting a HRM system, human resource managers within global organisations are obliged to manage collaboratively while maintaining their discretion and responsibility for human resource function within their individual organisations. Such a global network model of management and organisation of a firm's global human resource systems facilitates operating flexibility, capacity for innovation, and development of a unique and valuable relational capability (Schneider 1988, Lusch & Brown 1996).

The traditional hierarchical international human resource managers (i.e., managing based on strategic international human resource management model) frequently relied heavily on explicit methods of coordination and control of international relationships. In contrast, the global human resource network manager actively encourages the development of a shared mindset and commitment to the integrated whole by the network members. The strength of collaborations in the firm global network is dependent on the human resource manager's capability to understand and elicit the unique and valuable attributes of culture in the global network. To facilitate the development of the organisation's capability to capture this relational value of organisational culture, a global human resource manager needs to possess a repertoire of both tangible and intangible strategic leadership competencies that support integration of subsidiary social knowledge at the network level. As a result, the global HR manager's role orientation becomes flexible so as to be responsive to the global organisation dynamics. The model, explaining the system contributing to the evolution of the HR manager's role within a global network, is elaborated in the following section.



### **7.5.1. THE ROLE OF STRATEGIC GLOBAL HUMAN RESOURCE MANAGEMENT WITHIN GLOBAL NETWORKS**

Rapid globalisation, turbulent technological revolution and increasing deregulation have profiled a new competitive landscape in the global context (Lei, Hitt & Bettis 1996). This new hypercompetitive environment requires strategic flexibility of an MNC and its global partners (Zander & Kogut 1995). Global strategic flexibility augments the importance of resource flexibility, where the critical resources encompass strategic leadership, human capital, technological and manufacturing advances and cooperative synergies between organisational culture and structure (Lei et al. 1996). As such, an adaptive global organisation should be oriented toward dynamic and anticipatory strategic flexibility as one of its primary core competencies. Strategic flexibility imposes the demand for strategic leadership that influences the development of the organisational relational capability (Dyer & Singh 1998) for cultural change conducive to formation of global networks with other companies in the new competitive landscape.

As a result of the turbulent and almost sequenced changes taking place in the global competitive landscape, MNCs are increasingly modifying their opportunity boundaries by pursuing cooperative commitments (i.e., webs of strategic alliances). This allows an organisation to maintain a degree of flexibility in its structure and culture, and permits feasible restructuring of strategic relationships within various global networks on an on-going basis (Poppo 1995). The resulting relational flexibility imposes unique demands upon human resource managers to design flexible human resource systems responsive to the dynamic contractual relationships with globally dispersed customers, suppliers, and competitors. These increased demands are challenging because the benefits of flexible contract design in global network management are associated with the issues of varying exchange duration, uncertain temporal orientation and synchronisation of multiple relationships, and the issues of subsidiary-subsidary and supplier-supplier interdependencies (Mohr & Spekman 1994, Zaheer & Venkataraman 1995). In turn, these issues affect the varying demand for fit and flexibility in global human resource system design. As a result, these challenging

issues require both attention and agile action by the global human resource managers who are responsible for HR effectiveness within global networks. The most challenging issue is to enact an evolutionary transformation of the traditional hierarchical SIHRM models into a heterarchical SGHRM system.

The shift from a SIHRM to an SGHRM system is crucial to occur for the evolution of these processes and mechanisms found in HRM system to match the personnel needs of global organisations. The SGHRM system shapes organisational culture in terms of cooperative traits and practices (i.e., content) rather than in values and attitudes (Gates 1994). Also, this influence is reflected in terms of the extent to which organisational culture is shaped across the organisational units (i.e., strength). The extent to which the content and strength of organisational culture are shaped by the shift to the SGHRM system is influenced by the managerial global leadership mindset. If this influence is significant, the organisation's global performance is likely to be improved.

The SGHRM view goes beyond the SIHRM view by emphasising that HR effectiveness arises not only from the aggregate talent of the organisation's employees, but also from the coordinated deployment of this talent across the global organisation's network of relationships. The efficiency of this type of relational coordination is in turn a function of the global organisation's cultural context (Beer & Eisenstat 1996). For the global HR manager to develop the leadership role modes/options and influence the major transformation of the organisation's cultural context, the role of human resource management is to be refocused from the "traditional HR focus on attracting, selecting, and developing individuals to a new focus on developing an organisational context which will attract and develop leaders as well as facilitate teamwork" (Beer & Eisenstat 1996: 53). This new global leadership focus of HR encompasses new approaches to decision making, as well as innovative approaches to organising and managing people within global networks (i.e., global team-based management, high involvement of diverse employees, and effective and meaningful communication across cultures). In other words, the innovative global HR leadership can succeed in changing the organisation's culture only by focusing more on the new strategic task within global networks and less on modifying traditional HRM programs. The focus on the new global strategic task requires both an effective leadership by the global HR manager and an efficient design of the SGHRM system. Specifically, the HR manager's role transformation toward leadership within a global network is contingent upon an efficient SGHRM system design. To yield an efficient SGHRM system, the HRM

processes necessitate seamless interfaces across a variety of dynamic relationships within a global network.

### 7.5.2. Barriers to Strategic Human Resource Management in Global Networks

The demands for shared norms and values within a global network pose a myriad of simultaneous challenges for development of SGHRM systems: (1) frequent ambiguity about human resource management authority, (2) multiple interdependencies among subsidiaries, (3) increased uncertainty about sustainability of network flexibility and efficiency, (4) possible discontinuities in securing top level support for changes in human resource management systems, and (5) difficulties in acquiring the multiplicity of skills and competencies required for effective SGHRM in knowledge sharing (Nonaka 1990, Ring & Van den Ven 1992, 1994). Which combination of these challenges will be most salient at a particular time period or for a specific network configuration will depend upon which aspect dominates the relational content in the global network: those being, (1) communicating aspect, (2) exchange aspect, or (3) normative aspect. The communicating aspect of relational content in a global network refers to the human resource management-related information apprehension among network members. The exchange aspect is related to operating human resource management aspects supporting the flow of goods and/or services. Whereas, the normative aspect reflects shared expectations that network members have of one another based on some social feature (i.e., culture) (Aldrich & Whetten 1981). The interplay of these aspects may profile the emergence of the following potential barriers within global networks that strategic global human resource management must overcome:

1. Multiplicity of network units: The multitude of current and potential global network units requires continuous managerial mental accounting and prioritisation in selecting actual collaborating units. This requires shifting the human resource management selection criteria for personnel as well as practices as the firm's strategic orientation changes. In other words, a global human resource manager needs to develop an informed sense of which unit's human resource management systems are most compatible with the objectives of the network. Moreover, when operating simultaneously in multiple vertical and horizontal networks, a global human resource manager faces multiple



actors with varying human resource management-related tasks, policies and resources instrumental for the firm's strategic goal achievement. These multi-actor structures require managerial multi-tasking competence in the development of the firm's dynamic relational capabilities and routines.

2. Global network instability: Though a global network offers the potential for the firm's rapid adaptation to changing conditions, flexibility of adjustment, and the capacity for innovation, a SGHRM system must bridge the gaps of incomplete knowledge or goal conflicts in the network about human resource management flexibility. The timely managerial action is required to facilitate rapid human resource management responses of the global network to emerging profitable opportunities and successful human resource management adaptation to the current and future sets of its technologies, products and production capacities and to rapidly changing markets. The SGHRM system must direct collaborative effort and operating needs toward effective outcomes while maintaining network responsiveness, changing network memberships, and avoiding hierarchy.

3. Discontinuities in internal organisational support: The success of global networking of human resource management systems requires prior attainment of internal organisational resource coordination and top-level management support. In other words, the external networking success depends upon a previous success in the internal management coalition-building environment for human resource management flexibility. The most critical internal support mechanism for continuity of a global human resource management success is the top management team headed by the CEO.

4. Multi-dimensionality of strategic human resource leadership task: A manager developing an SGHRM system faces a complex task of multiple interdisciplinary dimensions: (1) technical dimensions (technological options) of global network, (2) legal dimensions (regulative restraints) affecting networking, (3) political dimensions (centrality bargaining) of network power distribution, and (4) economic dimensions (value capturing) of value chain streamlining. This multi-dimensionality of the strategic human resource management task imposes extraordinary time and competency demands upon global human resource managers and their ability to combine multiple dimensions into effective firm actions.

5. Multi-skill leadership demands for global network human resource management: Global networks require flexible capacities, skills, and knowledge that go beyond those of hierarchical human resource management. These multi-skill demands for managing within an SGHRM system include: (1) agile and decisive leadership behaviour expressed in continuing engagement and assertive acting on changing information base (i.e., thinking and acting in options); (2) ability to identify, access, and tap into the skills, knowledge and resources of internal and external network stakeholders (i.e., global human resource managers need to know who possesses or controls the critical resources: capital, technology, information, expertise, time, and absorptive capacity indispensable for flexible human resource management designs); (3) capability to formulate mutual benefits and engender purposeful interactions among the identified stakeholders with the objective of pursuing human resource management-related aspects of a co-operative main idea / project / program / relationship / membership; (4) building trust with the stakeholders that possess needed resources (i.e., expertise); (5) multilevel coordination across many global human resource cultures, procedures and divisions of labour incorporated into the global network; and (6) trans-disciplinary competence to quickly acquire, utilise and apply knowledge from multiple disciplinary practices.

### **7.5.3. Cultural and Gender Issues in International HRM**

Much of the work in the international HRM area concerns ways in national culture impacts employment practices in host countries and the limitations culture creates regarding the ability of MNCs to transfer employment practices to host countries. National culture may be thought of as the values, beliefs, perceptual orientations, and norms typical of the members of a particular society. The introduction of management techniques inconsistent with national culture can lead to the failure of the method, not to mention conflict between an MNC and its employees and, perhaps, the broader society. Comparative studies of national culture across a large number of countries is limited because of the significant costs associated with data collection. A study by Hofstede (1991), using data collected in around 60 countries in the late 1970s, remains influential despite controversy over his methodology and interpretation of the findings. However, other work (e.g., Triandis, 1995), would tend to support the general findings of Hofstede. There are various dimensions of culture that have been identified and can be measured (via survey questionnaires) cross-nationally.

Hofstede's work focuses on four such dimensions, all of which are related to work behaviors:

**Individualism/collectivism:** The extent to which personal versus group objectives govern a person's life. Most industrialized Western countries have individualist cultures, while much of the rest of the world is collectivist, including virtually all developing countries.

**Power distance:** The extent to which a low-status persons accept and legitimize the power and influence of high-status persons. Power distance and individualism/collectivism are correlated, so that individualist cultures are generally low on power distance (less hierarchical) and collectivist cultures are typically high on power distance (more hierarchical). Again, industrialized Western countries are generally lower on power distance and most other countries are higher.

**Masculinity/femininity:** The extent to which aggressiveness and material well-being are valued in a society versus good interpersonal relationships and general quality of life. "Masculine" cultures may also tend to be more patriarchal, while "feminine" cultures tend to have greater inequality between the sexes. This dimension does not seem to be related to economic development or even geographical location. Japan has the highest score of any country on the masculinity dimension, though several other East Asian countries score in the middle of the scale. Egalitarian societies, such as the Scandinavian countries, tend to be having more feminine cultures.

**Uncertainty avoidance:** Cultures where people are troubled by change and risk.

Work specifically on gender issues in the international HRM field is somewhat limited. A book edited by Adler and Izraeli (1994) contains several case studies of countries from all parts of the world; the authors discuss the extent to which women have achieved managerial positions in these countries and consider the role factors such as national culture have played in promoting opportunity for women. More quantitative work by Deva and Lawler (1998), using aggregate national data from the UN database on women, combined with Hofstede's national culture norms, suggests that culture certainly plays a distal, but perhaps not a proximate, role in generating employment opportunities for women. Ironically, the masculinity/femininity dimension seems unrelated to the proportion



of managers in a country that are women; more important is the degree to which the country's culture is individualist or collectivist. Individualist cultures tend to emphasize personal achievement and merit as a basis for mobility, whereas collectivist cultures are more ascriptive. Thus, individualism is positively related to employment opportunity for women in managerial positions. Some work suggests that workforce gender composition in subsidiaries of MNCs tends to conform to host-country norms (Rosenzweig and Nohria, 1994). However, some of our work suggests that the national culture of an MNCs home country, which presumably influences the firm's corporate culture, carries over to policies regarding employment opportunities for women in a developing country that imposes no specific limitations on gender-based employment discrimination (Lawler and Bae, 1998). This study was conducted in Thailand, though more recent work we have done finds similar relationships in Taiwan.

## 8. Competitive Advantage in International Business



MNEs possess two types of competitive advantages:

'Standard' competitive advantages identified in Industrial Economies. These relate to other firms making a similar product in the same market. Competitive advantages arising as a direct result of their international activities. These are transferable across international boundaries and offer additional significant profit opportunities.

### 8.1. Absolute Size

The large size of MNEs creates high entry barriers through large fixed and sunk costs. 'Deep pockets' finance more R&D, strategic price competition and cross-subsidies between products and countries.

### 8.2. Large Sunk &/or Fixed Costs

These inhibit new entry by raising costs. For MNEs, these costs can be offset against higher output (scale economies) and/or a presence in more markets (economies of scope).

### 8.3. Economies of Scale

These arise in all aspects of MNE operations. Unit costs (human, financial and technical) fall as output rises in supplying many markets in numerous countries.

#### **8.4. Proprietary Technology & Know-How**

MNEs possess a temporary or permanent monopoly over production, distribution, marketing etc. which can be extended across countries (scale economies).

#### **8.5. Product Differentiation (Branding)**

Reduces demand cross-elasticities for goods and services by offering different price/quality combinations and specific product characteristics. Scale economies in differentiation and advertising - similar products are supplied to several countries.

#### **8.6. Economies of Scope**

Reduce unit costs of complementary goods and services in production and distribution. Gains from activities with similar products in many countries.

#### **8.7. Economies of Diversification**

The benefits of diversified activities are output, markets, currencies.

#### **8.8. Factor & Goods Price Differences**

Input price differences, e.g. the international division of labour.

#### **8.9. Information Advantages**

Benefits of frequent contact with rivals and products.

#### **8.10. Synergy**

Strategic and market power benefits.

## 9. Strategic Management Explored - Business in the 21<sup>st</sup> C



In the changing world economy, strategic management processes and principles have to adapt to forces never experienced before in history. An evolving and context dependent practice, strategic management must incorporate many factors and considerations (Joyce & Woods, 1996). With the advent of the information age and globalization, the tactics and strategies necessary for success have become more complicated, sophisticated, and even radical. "To succeed in the long term, companies must compete effectively and outperform their rivals in a dynamic, and often turbulent environment," (Thompson, 1995, p. 1). It is important for organizations to be flexible, using strategies that help the workforce adapt to change and modify strategies that don't work (Genus, 1995). "Clearly, being a flexible provider of goods and services is critical to achieving business leadership. Having adaptable processes that deliver this flexibility to the customer is of major importance.

The process of strategic management focuses on how an organization gains awareness of and determines its' purpose for being; its' objectives and aims; as well as the actual planning, implementation and evaluation of how successfully the objectives were realized. Strategy provides a reference point for members of an organization: a structure and a map for growth and development (Craig & Grant, 1993). "The underlying rationale for the study of strategic management is that through formulating and implementing effective strategies business performance can be enhanced," (p. 18). Usually, strategic planning incorporates the long-term goals; a thorough analysis of the competitive environment; an objective appraisal of the organization's resources; and effective implementation under efficient leadership.

Strategy is superior when a competitive advantage is realized and when the strategies selected are functional, adding value to both the players and the stakeholders. Thompson (1995) pointed out that success in strategic activity hinged on the corporate or organizational culture and values, as well as on the strength and style of the strategic leader. If the culture and values of the firm welcomed change instead of fighting it, and demonstrated an understanding of priorities and strategic needs, success came more easily. "Appropriate actions not only allow a firm to survive in the long run, but also describe how it can develop and use core competencies to create sustainable competitive advantages and earn superior profits," (Hitt, Ireland & Hoskisson, 1996, p. C.1)





## 9.1. Strategic Intent

Strategic thinking is a combination of convergent, divergent and creative thinking combined with critical judgement (Ambrosini, Johnson, Scholes, 1998). A sense-making perspective of strategic idea cultivation implies that new strategic ideas are the result of the strategist's mental model of the situation and business processes (Hamel, Prahalad, Thomas and O'Neal, 1998). If the strategist can extend his or her view and see the strategic situation from more than one perspective or mental model, the resultant ideas can be rich in variety, range, and creativity.

Traditional response modes such as down-sizing, piecemeal structuring and processes, and incremental change no longer serve organizations in the current complex global environment (Nevis, Lancourt & Vasallo, 1996). Paradigm shifts in how business is done, is created, and is expanded has introduced a need for new strategies and methods of implementing these in the organizational milieu. Careful analysis of environment is important, including the external, general, industry, competitive, and internal organizational environments, (Hutt, Ireland & Hoskisson, 1996).

Craig and Grant (1993) proposed a model of strategic management, simplified with the acronym MOST (Mission, Objectives, Strategy, and Tactics). "It begins with overall organizational goals, articulates these goals in an action-oriented form, identifies a strategy and the objectives which that strategy seeks to achieve, and finally specifies particular tactics," (p. 25). Richardson and Richardson (1992) equated "total approach" strategic management with various kinds of planning: a) aspirations planning; b) corporate and competitive planning; c) contingency planning; d) administration planning; e) productivity planning; f) team culture planning; g) innovation planning; and h) shock event planning.

Likewise, Madu and Kuei (1995) and Hitt, Ireland and Hoskisson (1996) described a SWOT analysis: conducting a thorough analysis of strengths, weaknesses, opportunities, and threats before formulating strategies. "Through this analysis, the organization can identify its market niche, better define its mission and purpose, and proceed to provide needed goods and services. Quality performance and goals cannot be achieved if resources are not effectively utilized and opportunities are not properly identified," (Madu and Kuei, 1995, p. 21). It is important to discern how to position an

organization to maximize opportunities while minimizing environmental threats. Implementation of chosen strategies requires a synthesis of alternative strategies and their potential impact and results. Gap analysis helps managers to understand competitive environment dynamics (Ambrosini, Johnson, Scholes, 1998). Simply put, this type of analysis is focused on the gap between a) where a business is; b) where the business wants to be; and c) the strategies needed to get from a) to b). Performance gap analysis entails an assessment of gaps in diversification, expansion, and improvement. Product and market gap analysis are focused on gaps in product line, distribution, usage, and competitive edge.

Spector (1995) described a horizontal transformation process to strategically align an organization with its' suppliers and be centered around its' customers. An interactive and interconnected arrangement of the business units within the organization is central to this process, incorporating marketing, engineering, manufacturing, sales, and so on into one synergistic unit. Horizontalism is focused on redefining the meaning of delivering value to a customer, and refocusing the entire operation on that new definition. Historically, structures, systems, and styles of operating often blocked employees from focusing on the customers' needs. Hussey (1991) described how strategic training initiatives are effective for transforming company cultures and for introducing horizontal strategic tactics.

Joyce and Woods looked at strategic management through the three lenses of modernism (programmed innovation); post-modernism (focused on the diversity and spontaneous actions of managers and employees); and a new modernism (realization that experimentation must complement foresight). Nevis, Lancourt, and Vassallo (1996) proposed a seven point strategy for transforming organizations into viable vehicles to meet the coming new millennium. Strategies such as a) persuasive communication, to help members envision a different future; b) participation, or creating a shared reality through joint endeavors; c) expectancy or being prepared through visioning the possibilities; d) role modeling; e) structural rearrangement; f) extrinsic rewards to reinforce transformative behaviors; and g) legitimate coercion were all deemed important.

## 9.2. Organizational Missions

Winslow (1996) mused that "Mission statements often gather dust! They are little more than wish lists unless they are turned into deliverable objectives towards which



the organization can move," (p. 31). He encouraged a thorough business analysis prior to setting strategic responses. Bench marking, customer service research, and business reengineering were three ways that managers could augment the analysis of their own business to decide on their strategic goals and aims. "Strategic management has tended to focus on the achievement of a "fit' between an organization's mission or activities and both its wider environment and its resource capabilities. Key questions concerning the problematic notion of strategic fit include the extent to which the external environment of an organization can be analyzed objectively," (Genus, 1995, p. 8). With the continual and unpredictable changes prevalent in the global marketplace, a linear approach to strategic management seems outmoded. Protection and development of organizational flexibility preserves an organization's resources and capabilities amidst change and chaos.

The crucial need for change within organizations can not become reality until old embedded cultures and management legacies are dissembled and reshaped, and the old capabilities are dismantled, (Bainbridge, 1996). Attitudes, values, beliefs, and ways of doing things all must be scrutinized and redirected. "New organizational structures, new skills and knowledge and frequently new staff are necessary, as well as new IT systems and a new managerial perspective," (p. 11). Old antiquated processes must go, and new ones incorporating available technology and new thinking must be adopted to succeed in the twenty-first century. Yet, business must continue as these transitions are accomplished. While undergoing the process of renovation, rebuilding, and replacing, organizations need to remain in the market, attend to their stakeholders, stay competitive, hit profit targets, and keep abreast of technology breakthroughs. A tall order for any company. The traditional tenets of companies of the past: stability, conformity, and consistency can actually impede group members to resist the change process necessary to fulfill new organizational missions and strategies.

Strategic activities that target the human resources aspect of business, as well as the technology development, procurement processes, and the very infrastructure of an organization are necessary for effective strategic management in this coming new century (Genus, 1995). In the changing global climate, effective missions and objectives need to be specific yet not restraining; flexible, adaptable, and inspirational yet measurable; easily understood but not simplistic; attendant to both customers and other stakeholders; as well as be chronologically realistic yet embrace quality



(Hitt, Ricart & Nixon, 1998). "Needless to say, achieving the right balance on all these parameters is extremely difficult," (p. 36). Mission effectiveness can be measured by diverse indicators: the degree to which organizational members gain clear direction; how much it inspires and generates passion and commitment; and in the company's actual performance.

### 9.3. Technology Revolution

The explosive growth of the information age has created a phenomenal change in society, in people's individual lives, and in the workplace. It has potentiated for the first time, a truly global workforce and global social consciousness (Parker, 1996). With the enabling features that the technology of the new millennium promises, businesses can and will be operated much differently than in the past. "Discontinuous and forced changes characterize current business environments in which organizations and national economies behave erratically in attempts to maintain competitive positions," (Parker, 1996, p. 21). Parker elaborated by naming four business strategies important to information technology (IT) adoption and currency. The four strategies included a) Anywhere, anytime workplaces where physical and temporal boundaries no longer exist; b) information empowerment, bringing new possibilities in internal and external collegial relationships; c) networked enterprises, supporting an economy that places a premium on responsiveness, quality, and added value; and d) mass customization, or "applying technology to support new processes, products, and markets necessary to respond to the global marketplace," (1996, p. 26).

It is important to have both appropriate application and architectural strategies and to constantly redesign and recalibrate management agendas and business paradigms in this information intensive, globalized business environment. Parker (1996) proposed a transformational planning context to guide managers in setting technologically based strategies. She cautioned that managers need to consider the I/T strategy risks that crop up while transforming a business, caused by changes in alliances, structure, technology, environment, and so on.

Chan, Huff, Copeland and Barclay (1996) empirically showed that information technology strategic alignment was a critical dimension of strategic management, one

that seriously boosted a company's business unit performance. It is important to gain both an external and internal perspective of IT strategic decisions, and be able to use both simultaneously (Venkatraman & Henderson, 1994). "When making decisions, top management has to take into account how the organization appears to the outside world and also how it appears to the people within," (p. 111). Environmental events as well as cultural-behavioral-political processes within an organization need to be integrated and viewed together. Both environmental conditions and intra-organizational processes can constrain the IT strategic choices available to management. Since strategic IT decisions usually require large amounts of resources and involve high levels of risks, contingent IT strategies must be chosen wisely, and customized to unleash a particular firm's strengths and potential.

#### **9.4. Globalization and the Global Economy**

Globalization implies that business transactions, customers, suppliers, and alliances occur across distance, time zones, and countries, which obviously introduces new cultures and languages into the mix, (Parker, 1996). Bainbridge (1996) described the exciting new global market that is emerging as "...supported by a new world infrastructure of telecommunications and data communications," (p.6). He credits the Internet as the prime vehicle for business to operate on a scale and geographic level beyond imagination only a few short years ago. Change seems to be the name of the game as new freedoms become prevalent at the same time as a more aware and discerning clientele is emerging. In every kind of business imaginable, "radical new businesses burst into the market-place and overturn the way business is done, taking advantage of those locked in the past," (Bainbridge, 1996, p. 8). Parker (1996) added that "global forces impact on how we do business by changing our relationships with suppliers, markets, and competitors," (p. 3). Parker elaborated that forces such as economic bases, changing organizational designs, social issues, and information technology advances interrelate to shape and form the "new competitive environment and cause the competitive enterprise to transform itself," (1996, p.3).

"In recent years, strategic alliances have become a highly popular strategy, particularly for entry into international markets. Alliances are used by firms to share risks and resources, to obtain access to markets and to gain knowledge. Strategic alliances are generally designed to build and maintain a long-term cooperative

relationship so that the partners can more effectively compete with other firms," (Hitt, Ricart & Nixon, 1998, p. 5). Learning how to collaborate successfully and to integrate and utilize knowledge gleaned from the alliances is a challenge in all strategic partnerships. Mutual trust, cooperation, and the sharing of complementary resources are necessary and important to tap the rich potential of the emerging global economy.

The world economy is predicted to grow 50 per cent or more over the next two decades, if present patterns continue, (Parker, 1996). Both international trade and international investment combined with the advent of informational technology have catalyzed a new global economy, rich in international competition in virtually all levels and types of businesses, (Craig & Grant, 1993). A company whose resources and capabilities have always been in a national context is now faced with competitive organizations which stem from vastly different national contexts. Opportunities to tap market prospects outside of the domestic market are also afforded. Both global and multinational strategies are possible with the changing world economy. Managers once focused on domestic competition must make a conceptual shift to a global perspective (Parker, 1996).

## **9.5. Competition and Competitive Advantage**

Competitive advantage implies that an organization has a distinct and obvious advantage over their competitors (Thompson, 1995). This can be realized by either of two stances: cost leadership or differentiation. In the former, a company offers a quality item or service at less cost to the consumer; in the latter, value warrants a premium price for the product, which customers are willing to pay. Continual innovation and speed in new product development are also both important to sustain competitive advantage in the global economy.

In recent times, a shift from an external to an internal view of an organization has been encouraged, with a subsequent shift of emphasis onto the resources and capabilities of the group and its' members, (Craig and Grant, 1993). Resources are the individual assets within an organization: employee skills, products, technology, reputation, patents, brand names and so on. Capabilities are "what the firm can do: they are the result of resources working together to achieve productive tasks," (p. 49). Careful and deliberate application of capabilities within a strategic plan, can both

augment the resource base and create a competitive advantage. Sustainability of this competitive advantage depends on the durability, transferability, and replicability of an organization's resources and capabilities.

Resource-based theory indicates that unique competitive advantages can be facilitated through business alliances, since they help firms to supplement gaps in their resource set, (Hitt, Ricart & Nixon, 1998). A resource-based approach to strategic management, which includes a knowledge-based perspective focuses on the attributes of an organization as the drivers of performance and competitive advantage. Factors such as trust, technology know-how, learning, management skills, product development, and financial requirements all influence the success of strategic alliances within the competitive market. Trust, coupled with reciprocity and forbearance reduces the likelihood of opportunistic behaviors within alliances, and supports the notion of collaborative and cooperative endeavors. Trust arises when both parties perceive that the other is providing expertise relevant to alliance success," (p. 261).

An empowered workforce within an organization is another prime strategic approach to ensure long term success. When achievement is properly recognized, and initiative and success is rewarded, employee responsibility and accountability tends to improve. As well, decentralized decision making often boosts the organizational culture, opening the environment to more innovation and creativity, (Thompson, 1995). Combined with a visionary leader who has gained the trust and support of the workforce, empowered employees are crucial to sustained adaptive strategic initiatives.

Value chain analysis is another strategic tool that facilitates explicit awareness of an organization's competencies, core competencies, and competitive performance (Ambrosini, Johnson & Scholes, 1998). This tool includes a qualitative description of value chains as well as a quantitative assessment of where both value and cost are gained and lost. Strategic financial accounting helps to view business performance, position and potential by analyzing how value is both generated and lost at the business and corporate level. Shareholder value analysis (SVA) entails "...assessing whether strategic developments are likely to result in an increased value for the



shareholders," (Ambrosini, Johnson & Scholes, 1998, p. 229). More than just a financial tool, SVA incorporates strategy, marketing, and scenario analysis of the corporate financial picture to gain perception of the corporate value-creating potential.

"Despite formidable entry barriers, firms will try to penetrate mature industries if demand appears attractive or leading firms are enjoying high levels of return on investment (ROI). Rapid growth in demand within otherwise mature markets will attract new entrants. New firms will be attracted to industries where there appear to be opportunities to enter easily and earn acceptable profits. The more attractive candidates for entry would be those industries where growth in demand is outpacing ongoing competitor's abilities to satisfy it (for example, where excess capacity is low). High levels of ROI and growth in demand encourage potential entrants to invest, as would high levels of industry wide advertising," (Harrigan, 1985, p.18).

## 9.6. Future Challenges

Schwartz (1991) recommended the use of "scenarios" to prepare for future possibilities within an organization. He suggested using a focus on the future economy as a key point, with factors and major decisions as equal considerations. Rehearsing the implications of a variety of possibilities was the true work of the scenario process. Schwartz (1991) summarized, "Scenario thinking is an art, not a science. Typically, you find yourself moving through the scenario process several times - refining a decision, performing more research, seeking out more key elements, trying on new plots, and rehearsing the implications yet again. You develop a range of two or three potential futures, allowing you to address an array of possibilities and rehearse your response to each," (p.29). Parker (1996) also promoted scenario-based planning to "...think about alternative business strategies and actions when world truth and market definition change occur and to initiate planning in that context," (p.259).

Joyce and Woods (1996) described the strategic manager as a pragmatic strategist, one who can both craft strategy like a master, and do it pragmatically like a scientist. "It entails devising strategy which specifically meet the requirements of the internal social situation as well as the external business situation," (p. 249). Georgantzis and Acer (1995) elaborated that scenario-driven planning - a new management

technology can be used to enhance strategy design by continuously renewing organizational mind-sets.

Hussey (1995) projected a description of the business world twenty years into the future. Forces that would impact on the value of strategic choices included: a) the evolving arrangement of nations, with evolving international patterns of political and economic order; b) an increasing global population; c) interdependence amongst global nations; d) socio-political change; e) a move towards alternative energy sources; f) further advancement of science, technology, and space exploration and use; and g) weapons (conventional and nuclear) proliferation. The combination of these factors is predicted to perpetuate a devolution of international power and new global competitiveness, with post-industrial countries serving as role models and leaders. "As firms move from reactive to anticipatory strategic management, the development of technology will also move from reaction to anticipation," (Ansoff & Mc Donnell, 1990, p. 481). A "planning of planning" approach will become more and more common. As theory in strategic management is tested and researched, new tools for strategic interventions and tools will become more theory based. Strategic management will increasingly blend technological and socio-political variables with economic and competitive variables. As well, the building of a capability platform in advance of strategy formation will be common.



## 10. Strategic Issue in Bangladesh



### Bangladesh - an investment destination in South Asia

Bangladesh is virtually located as a bridge between the emerging markets of South Asia and fastest growing markets of South East Asia and ASEAN countries. With the proposed concept of a "Bay of Bengal Growth Triangle" with its apex Chittagong port extending south-west to Calcutta, Madras and Colombo and the south-eastern arm extends through Yangon, to Thailand, to Penang with the third arm to Colombo, this region should have growing attention of the investment world. Bangladesh has the potential to be an entry port to the region, a potential small scale Singapore, for the region covering Bangladesh, Nepal, Bhutan, eight north-east Indian states (of Assam, Meghalaya, Monipur, Imphal, Arunachal, Nagaland, Mizoram and Tripura) and resource-rich northern Myanmar, a land locked region. Bangladesh is poised to become a regional hub where activities relating to assembling, manufacturing, trading and services, would be some of the areas that are picking up over the years. This geopolitico-economic location of Bangladesh indicates its history of being a nation of sea-farers, traders and suppliers.

Bangladesh is a developing democratic polity on the Westminster model; secular, but not a theocratic state. Bangladesh is a moderating influence in a consistently volatile and often mutually hostile South Asian scenario.

The current macroeconomic situation in the country is, by and large, stable, characterized by a manageable fiscal deficit and a quite low current account deficit. The stable macroeconomic situation is an outcome of a mixture of prudent monetary and fiscal policies that are being pursued. The external current account deficit has also been low. This reflects the continued high growth of exports, increased flows of remittances, moderate growth in money supply as well as that of imports.

The country has a policy of private sector led, liberal economic approach; export oriented, gradually transforming into assembling & manufacturing; seeking for rapid expansion of the service sector. Also looking for substantial joint venture and Direct Foreign Investment (DFI) from abroad in medium and large-scale industries and enterprises, including infrastructure building.

The following facts deserve attention in relation to assessment of Bangladesh as an investment destination:

- i) Bangladesh has never defaulted in its debt-service liabilities to multi-lateral and bilateral donors.
- ii) Bangladesh grow over 21 million metric tons of food grains, basically rice and some wheat and potatoes which is enough to feed the population of the country, and for building reserve stocks.
- iii) Bangladesh never experienced negative growth during last 27 years of it's independence.
- iv) Bangladesh exports readymade garments, knitwear, brand name wind cheaters, walking shoes, leather goods, shoes and other products, urea fertilizer, pharmaceutical, shrimps and prawn, vegetables, jute and jute products etc. to sophisticated markets of EU, USA, Japan and many other countries. Garments and related export account for more than US \$4 billion.
- v) The frequency and intensity of natural disasters are far less in Bangladesh than those in the Philippines, Japan and even the USA, Bangladesh is located outside the major earthquake zones.

## 10.1. Reforms and liberalization

A significant array of reforms, deregulation and liberalization have been carried out over the recent years in policies relating to virtually every sector of the economy including financial reforms with the aim of globalization challenges for the economy through introduction of international competitiveness and productive efficiency.

We have opened up our economy. We are one of the top exporters of readymade garments to USA and Europe. Our shrimp and leather products exports are rising sharply. We have removed all barriers to investment and business. Government is offering unparalleled

facilities to investors. 100% foreign investment is allowed, excepting four reserved items/areas: i.e.

- (a) production of arms and ammunition and other defense equipment, and machinery,
- (b) forest plantation and mechanized extraction within the bounds of reserved forests,
- (c) Production for nuclear energy
- (d) security printing (currency notes) and minting.

All other areas are open to private investment. We are providing tax holidays and duty free import of capital machinery, raw materials import for export manufacturing. Expatriates' work permits are easily obtained and unhindered remittance of dividends, capitals, gains on capital etc. are allowed. We have eliminated licensing system and simplified government approval procedure for investment in Bangladesh.

Government has enacted a law in the parliament enabling the private investors to set up private Export Processing Zones (EPZ). The units in private EPZ will enjoy facilities similar to those in government EPZs. The Private Power Generation Policy has been formulated paving the way for private investment in power generation for which a new Electricity Act and a regulatory commission is on their way. Private investments have already been allowed in gas exploration, gas development, power generation and other mining & exploration activities.

## **10.2. An attractive investment destination**

Following are some positive aspects which make Bangladesh an attractive location to foreign investors:

- i) We have opened up our economy with rapid liberalization of import policies helping globalization of our economy;
- ii) According to a Survey of the Economist-risk factors for FDI in Bangladesh are minimum compared to many other countries of this region;



- iii) Cost of production especially cost of labor both skilled and semi-skilled is comparatively lower;
- ix) Cost of living is also quite low and reasonable and there is no communal or ethnic problems;
- v) English language is widely spoken and understood;
- vi) Working capital loan as well as term loan from local commercial banks allowed to the industries setup with foreign capital;
- vii) Citizenship by investing a minimum of US \$5,00,000 or by transferring US \$10,00,000 to any recognised financial institutions (non-repatriable);
- viii) Permanent residentship is granted to an expatriable by investing a minimum of US \$75,000 (non-repatriable);
- ix) Avoidance of Double Taxation Agreements and Bilateral Investment Promotion Treaties have been signed with many countries including U.K.

### **10.3. Legal security for investment**

- i) Foreign Private Investment (Promotion and Protection) Act, 1980 ensures legal protection to foreign investment.
- ii) Bangladesh is a member of Multi-Lateral Investment Guarantee Agency (MIGA), Overseas Private Investment Corporation (OPIC) of USA and International Centre for Settlement of Industrial Disputes (ICSID)
- iii) Member of World Intellectual Property Organization (WIPO) and World Association of Investment Promotion Agencies (WAIPA).

### **10.4. Private Investment Trend**

Board of Investment (BOI), the government's investment promotion agency, is at the forefront of the country's efforts to attract and facilitate investment. Board of Investment headed by the Hon'ble Prime Minister, was created in 1989 to implement governments' investment policy and promote private participation in the industrial sector. As a result of

reformed policy measures undertaken by the government, private investments especially foreign investments in the country have increased manifold. This has been achieved due to adoption of various programmes including holding of seminars/symposium, bilateral talks, press briefings and other interactive processes at home and abroad.

From the analysis of investment trend, it reveals that from 1991-1992 to 1999-2000 as many as 10412 industrial projects both local & foreign have been registered with BOI having total investment outlay of US\$ 19074 million with employment opportunities of 1442568 persons. During that period a total of 998 industrial projects both under joint venture and 100% direct foreign investment was registered with Board of Investment having proposed investment of US\$ 11667million with employment opportunities of 257159 persons.

The top investing countries are USA, UK, Malaysia, Japan, Hong King, Singapore, Republic of Korea. France, India, Germany, China, in that order. During the fiscal year 1999-2000, 135 projects involving an estimated foreign investment of US \$2119 million have been registered with Board of Investment. Several major oil companies e.g. Shell, UNOCAL, etc. have already invested. Burlington Resources have notified their intent to have major investment in gas and oil exploration. The French TNC LaFarge, the world's largest cement producer is setting up a US \$240 million cement factory with 1.2 million MT initial capacity, to be raised to 2.4 MT in phase-wise. Several international telecom companies have set up successful joint ventures and others are expected to make substantial investment in infrastructure projects.

## **10.5. Export Policy of Bangladesh**

Acceleration of production and expansion of trade result in growth of national wealth. Increased production in export sectors may become the prime mover in the development cycle in a densely populate of Bangladesh like our as this will generate employment opportunities which in turn will generate savings and investment on consequent flow of capital. The prime national objective of poverty alleviation will thus be materialised. As a first step towards reaching this goal we need to look at the country's production infrastructure.

Our export trade is featured by the dominance of a few commodities in a narrow market.

Such dependence on a limited number of export items targeted a limited market is not desirable for economic development. We must, therefore, aim both at product and market diversification or else our export trade will become stagnant in the near future.

Our export trade must keep pace with the projected GDP growth @ 7% and make due contribution through increased export earning. In this exercise it is imperative to identify new thrust sectors, increased export of higher value added items, diversify product wise, ensure products quality, improve packaging, attain efficient productivity. We should aim at marketing quality products at competitive price at the correct time.

The Export Policy 1997-2002 has been designed to operate in the imperatives and opportunities of the market economy with a view to maximizing export growth and narrowing down the gap between import payment and export earning.

## 10.6. Objectives:

The principal objectives of this policy are:

- 2.1. To achieve optimum national growth through increase of export in regional and international market;
- 2.2.. To narrow down the gap between the country's export earning and import payment through achievement of the export targets ;
- 2.3.. To undertake timely steps for production of exportable goods at a competitive price with a view to exporting and strengthening existing export markets and making dent in new markets;
- 2.4.. To take the highest advantage of entering into the post Uruguay liberalized and globalized international market;
- 2.5. To make our exportable items more attractive to the market through product diversification and quality improvement;
- 2.6.. To establish backward linkage industries and services with a view to using more indigenous raw materials, expand the product base and identify and export higher value

added products ;

2.7. To simplify export procedures and to rationalize and solidify export incentives;

2.8. To develop and expand infrastructure ;

2.9. To develop trained human resources in the export sector;

2.10. To raise the quality and grading of export products to internationally recognized levels.

## **10.7. Strategies:**

The following strategies shall be undertaken to attain the objectives of the export policy 1997 - 2001:

3.1... Simplifying export procedures and helping the private sector achieve efficiency. The Govt... Desires more and more involvement of the private sector while the govt. will continue to play its facilitating role;

3.2.. Enhancing technological strength and productivity and facilitating reduce cost and attain internationally accepted standard of quality of exportable products and thereby consolidate their competitiveness;

3.3.. Ensuring maximum use of local raw materials in the production of export goods and encouraging establishment of backward linkage industries;

3.4. Participation in the international trade fairs, specialized fairs, single country exhibitions abroad and also sending out trade missions, with a view to consolidating our position in the existing market and creating new markets;

3.5. Encouraging export of new category high value added readymade garments and also encouraging the concerned trade associations for establishment of a Fashion Institute ;

3.6. For promotion of high value added leather and leather goods export: providing various facilities including bonded warehouse facilities for import of materials such as raw hides,

pickled, wet blue, crushed and finished leather, components and chemicals etc. to 100% export oriented leather industries;

3.7. For promotion of export of shrimp: Extension and modernization of traditional/semi-intensive method of shrimp cultivation and ensuring quality as per buyers requirements ;

3.8. For promotion of export of jute and jute goods: Undertaking extensive publicity of jute and jute goods as environment-friendly natural fibre and diversification of the uses of jute products;

3.9. For promotion of export of tea undertaking programmes for establishing brand name and developing linkage with established blending and distributing agents;

3.10. For promotion of export of agro based products: undertaking programmes for raising quality standard and expansion of market;

3.11. For the promotion of export of electrical and electronic goods ( including computer software and data entry) : Building and ensuring conducive infrastructure;

3.12. For the promotion of export of engineering consultancy and other services and sub-contracting involving, in a bigger way, Bangladesh missions abroad obtaining contracts;

3.13. Organizing regularly international trade fairs and product-specific fairs with the country;

3.14. Making appropriate development and expansion of infrastructure conducive to export;

3.15. Making arrangements for necessary technical and practical training for development of skilled manpower in the export sector;

3.16. Ensuring maximum utilization of financial and other assistance extended by the World Trade Organization to the Least Developed Countries;

3.17. Ensuring maintenance of ecological balance and pollution-free environment in the production of exportable goods;



3.18. Extending technical and marketing assistance for development of new products and for finding appropriate marketing strategies;

3.19. Taking necessary steps to assist procurement of raw materials by the export oriented industries at world price.

## 10.8. Bangladesh - Potential Sectors for Investment

Bangladesh, traditionally known for jute and tea exports, has recently attracted world- wide attention for readymade garments and leather exports. Bangladesh foresees an expansion of her agricultural sector, as well as increased diversity in non traditional industries and business. Below is a short account of a few potential investment areas.

\*130 million population \*50 million civilian labour force \*trained and educated workforce at low wage rate \*sizeable domestic market \*political stability \*steady growth of GDP \* stable rate of exchange \*low interest rate \*low rate of inflation \*comfortable foreign exchange reserve.

### 10.8.1:Textile

Bangladesh is a land of nearly 112 million people with annual per capita income of US\$ 386. Clothing being the second basic need there exists a vast market for textile products in this country.

The readymade garments (RMG.) is the manufacturing success story in Bangladesh from US\$ 7.00 million in 1981-82 to US\$ 1949 million in 1995-96 and from 11% to 50% of total export earning during the period. Only knit fabric for the knitted garments and hosiery are domestically produced. But the predominant raw materials for readymade garments are woven fabrics, most of which are now imported.

Due to lack of quality woven fabrics required by buyers, the readymade garments sector in Bangladesh had to import a total of 2.5 billion linear yards of fabrics in 1995. The projected fabrics demand for the RMG. industry for 1996 is around 2.85 billion yards light woven,

heavy woven and mixed woven 2.38 billion yards, and knit 0.47 billion yards) Currently 240 readymade garments units spend approximately 65% of their export earnings on import of fabrics.

### 10.8.2. Leather goods

There is already a substantial domestic leather industry, mostly export-oriented. The leather includes some readymade garments, although that, aspect is confined mainly to a small export-trade in 'Italian made' garments for the US market. Footwear is more important in terms of value added, accounting for just over US\$ 4 million exports in FY 1992-93. The figure raised at US\$ 22.77 million in FY 1996-97. This is the fast growing sector for leather products. Bangladesh produces between 2 and 3 percent of the world's leather market. Most of the livestock base for this production is domestic which is estimated as comprising 1.8 percent of the world's cattle stock and 3.7 percent of the goat stock. The hides and skins (average annual output is 150 million sq.ft.) have a good international reputation. Foreign direct investment in this sector along with the production of tanning chemicals appears to be highly rewarding.

Foreign investment with technology in this potential sector has been recognised as most viable areas in Bangladesh. This sector has various incentive for foreign investment/jointventure in one of the above mentioned areas or may be under a composite project with potential high return.

### 10.8.3. Frozen food

The frozen fish export sector is the second largest export sector of the country with annual turnover of US\$ 321 milion (17.05 M.Lbs) in 1996-97. The average annual growth rate is 28%. This 100% export oriented industry includes the following sub-sectors which need proper attention for augmentation of production and export earning. Hatcheries-sustainable aqua-culture technology-feed meals plants-processing unit for value added products.

Foreign investment with technology in this potential sector has been recognised as most

viable areas in Bangladesh. This sector has various incentive for foreign investment/jointventure in one of the above mentioned areas or may be under a composite project with potential high return.

### 10.8.4 Jute goods

Bangladesh is one of the leading producers of jute in the world. At present the annual production is 890,000 MT. In 1996-97 Bangladesh exported raw jute worth US\$ 116.32 million and jute goods worth US\$ 317.86 million in the form of sacking hessian, carpet & carpet backing cloth, jute yarn/twine etc. This is one of the very prospective areas for investment with higher technology.

### 10.8.5. Oil and Gas

Bangladesh has an estimated gas reserve of about 23 TCF. Out of this about 14 TCF is considered recoverable. So far 57 wells have been drilled in 19 discovered gas fields and present production is about 280 BCF per annum.

The government of Bangladesh has decided that future exploration for oil and gas will be done through the private sector to the maximum extent possible. With this end in view the first round of bidding took place in 1993 and 4 companies eventually signed Production Sharing Contracts (PSCS) with Rexwood Okland, United Meridiam and Occidental.

### 10.8.6.:Coal

Besides Oil and gas a contract has been signed to extract coal from Barapukuria coal mine in Dinajpur district with a Chineses consortium designed to extract 1.0 million MT coal a year. Another contract has been signed with a North Korean company for the extraction of 1.6 million MT hard rock per year at Madhyapara in the same district.



## 10.8.7.:Power

Bangladesh is still at a low level of electrification with only 16% of its population having access to electricity and per capita generation is only 96 KW per annum. Hence, there is a great need and urgency to expand the electrification programs. The government of Bangladesh has attached priority for the development of the power sector.

The present installed generation capacity is 2908 MW. But the available generation capacity is about 2200 MW due to old age of few power plants. The route length of transmission line is 3500 Km, the total length of distribution network is 1,28,000 KM and the number of consumers is 35,00,000 at present.

Bangladesh has amended its Industrial Policy and the power sector is open to private investment. The government has approved the Private Sector Power Generation. Policy of Bangladesh to attract private investment in power generation. Under the policy, the private power companies shall be exempted from corporate income tax for a period of 15 years and the companies will be allowed to import plant and equipment without payment of custom duties and VAT.

Because of the favorable conditions for private investment a large number of Independent power producers (IPPs) have shown interests for setting up power plants in Bangladesh. A Rural Power Plant is being implemented by RPC at Mymensingh. A Rural Power Company (RPC) has been created. A 60 MW Gas Turbine Power Plant is being implemented by RPC at Mymensingh. Contracts with four IPPs selected through competitive bidding have already been negotiated and are expected to be signed shortly. Bids received for setting up a 360 MW combined cycle power plant at Haripur and 450 MW combined cycle power plant at Meghna Ghat in the private sector are being evaluated. There is need for more private investment in power generation to meet the increasing demand in future.

## 10.8.8.:Telecommunication

The recent revolution in information technology has opened up a new area for private

investment in the telecommunication sector. Previously in the public sector, this has now been opened up for private investment.

Bangladesh Telegraph and Telephone Board (BTTB) is developing communication facilities with modern technology, Communications with the outside world are also being developed. Private sector operations in the rural telecommunications, paging, cellular telephones and reverine radio trucking have already been allowed. BTTB has already started providing VSAT (Very Small Aperture Terminals) facilities to the private sector. In the meantime two private companies have been given license for providing telecommunication in 390 thanks, till now they have covered 221 upa-zillas. So far licenses have been issued to four private operators for cellular or mobile telephone services in the country.

### **10.8.9. Air Transportation**

In air transport, the government has given provisional domestic air transport operating licenses to six private companies for STOL Services. Seven airports have been refurnished to cater to their needs. International air & cargo transport in the private sector is now allowed for operation in Bangladesh.

### **10.8.10:Electronics**

Bangladesh's experience in basic electronics spans over two decades. In recent years, European and Asian electronic firms have established technical collaboration with their Bangladeshi counterparts to produce some electronic goods at competitive prices. This has tremendous potentiality for expansion.

### **10.8.10. Light engineering industries**

Light industries in Bangladesh produce a multitude of labour intensive goods including toys, consumer items, small tools and paper products for the domestic market. Further development of these industries offers various investment opportunities.



Export oriented production in light industries has gained momentum in the past few years. Entrepreneurs from Hong Kong, Japan and Korea have taken advantage of Bangladesh's cheap and easily trainable labour and its infrastructure facilities to manufacture products for the export market.

### 10.8.11.:Tourism

With growing international interest in travelling through Asia tourism is taking roots in Bangladesh. Bangladesh offers a variety of historically significant and culturally unique sites for tourists. Sylhet's tea gardens, Cox's Bazar sea-beach, the Royal Bengal Tiger, Deer and the Sundarbans, the largest mangrove forest in the world with unique bio-diversity offer tourist attractions. Ancient mosques, Buddhist monasteries, Hindu temples, monuments and other landmarks dot the countryside. Additional hotel and resort facilities could be created for attracting tourists from home and abroad. Dhaka and Chittagong also have an unmet demand for additional hotel rooms, restaurants, entertainment and recreational facilities.

### 10.8.12.:Agriculture

Raw jute, tea, tobacco, vegetables, spices and tropical fruits are the key potential products. Agriculture is the biggest private sector operation contributing 35% of GDP. The government has gradually removed the constraints imposed by state intervention deregulated and liberalised the markets to allow further private participation particularly in the supply of inputs and distribution of output. The government has drastically reduced duties and taxes on a range of agriculture inputs. Fertilizer is exempted from customs duties and VAT.

Bangladesh continues to grow about 2 percent of the world's tea in some 150 plantations on the North-East region of Sylhet. Tropical fruits and vegetables are grown seasonally and have recently begun to be exported in various forms. Tobacco farming is also well established.

### 10.8.13. Agro based industries

Bangladesh has the basic attributes for successful agro based industries, namely, rich alluvial soil, a year-round frost free environment, an adequate water supply and an abundance of cheap labour. Increased cultivation of vegetables, spices and tropical fruits now grown in Bangladesh could supply raw materials to local agro processing industries for both domestic and export markets. Progressive agricultural practices, improved marketing techniques and modern processing facilities would enable the agro processing industry to improve its quality and expand production levels significantly. Computer software development, data entry & data processing.

Availability of substantial number of unemployed qualified young people in various branches of engineering, science and technologies have opened up the scope of profitable investment in these sectors. Comparatively short training period and low investment have made such ventures highly profitable.

## 10.9. BANGLADESH EXPORT PROCESSING ZONES

In order to stimulate rapid economic growth of the country, particularly through industrialization, the government has adopted an 'Open Door Policy' to attract foreign investment to Bangladesh. The Bangladesh Export Processing Zones Authority (BEPZA) is the official organ of the government to promote, attract and facilitate foreign investment in the Export Processing Zones. The primary objective of an EPZ is to provide special areas where potential investors would find a congenial investment climate, free from cumbersome procedures. Two EPZs, one in Chittagong and the other near Dhaka are now operational.

In the wake of increasing demand of the investors, the Dhaka EPZ has been expanded. Development work of the EPZ at Mongla, a southern port of Bangladesh is progressing fast. It is expected to be operational soon. Two other EPZs - one at Comilla and the other at Ishurdi are in implementation stage.

## **ELIGIBLE INVESTORS**

100% foreign owned including Bangladesh nationals ordinarily resident abroad (Type-A). Joint venture between foreign and Bangladesh entrepreneurs resident in Bangladesh (Type-B). 100% Bangladesh entrepreneurs resident in Bangladesh (Type-C).

## **MODE OF INVESTMENT**

Investment in convertible foreign currencies by foreign investors. Option to establish public/private Ltd. Companies or sole proprietorship/partnership concerns.

## **TELE-COMMUNICATIONS**

E-mail, Internet, Telex, Fax and International Dialing Services connected through satellite system available.

## **COMMUNICATIONS**

Adequate sea, rail, road and air communication services available.

## **MINIMUM WAGES (MONTHLY)**

Apprentice/Trainee	US\$	22.00
Unskilled	US\$	22.00
Semi-skilled	US\$	22.00
Skilled	US\$	22.00

Other benefits include Conveyance Allowance, House Rent, Medical Allowance and Festival Bonus.

## **INCENTIVES FISCAL**

### **I. Tax Exemption**

- Tax holiday for 10 years.
- Exemption of income tax on interest on borrowed capital.
- Relief from double taxation subject to bilateral agreement.
- Complete exemption from dividend tax for tax holiday period for foreign nationals.
- Exemption of income tax on salaries of foreign technicians for 3 years subject to certain conditions.

### **II. Duty Free Import and Export**

- Duty free import of machineries, equipment and raw materials.
- Duty free import of three motor vehicles for use of the enterprises in EPZs under certain conditions.
- Duty free import of materials for construction of factory buildings in the zones.
- Duty free export of goods produced in the zones.
- GSP facilities available for export to USA, European and Japanese markets.
- Export from Bangladesh to USA enjoys Most Favoured Nation (MFN) status.

## **NON- FISCAL**

### **I. Investment**

- All foreign investments secured by law.
- No ceiling on extent of foreign investment.
- Full repatriation of profit and capital permissible.
- Repatriation of investment including capital gains, if any, permissible.
- Remittances allowed in following cases :
  - I. All post tax profit and dividend on foreign capital.
  - II. Savings from earnings, retirement benefits, personal assets of individual on retirement/ termination of services.
  - III. Approved royalties and technical fees.

### **II. Project Financing and Banking**

- Off-shore banking facilities available.
- Local and international banking facilities also wide-open.

### **III. Import**

- Freedom from national import policy restrictions.
- Import of raw materials also allowed on Documentary Acceptance (DA) basis.
- Advantage of opening back to back LC for certain types of industries for import of raw materials.
- Import of goods from the Domestic Tariff Area (DTA) permissible.
- Enterprises can sell their 10% of the product to the DTA on payment of duties and taxes under certain conditions.

## 11. CONCLUSION



Undertaking an expansion into foreign markets is susceptible to organized and fairly rigorous analysis. The premise underlying our discussion is that profitable international business expansion is much more likely when management carries out an analysis prior to committing resources to the expansion strategy. Simply responding to seemingly timely opportunities initiated from outside the organization is likely to result in costly failure.

There are a distinct set of issues that management should address in identifying and evaluating international business opportunities. Addressing those issues involves collecting and evaluating information about foreign markets within an organized framework. One key element of the framework is the notion of sustainable competitive advantages. Key to identifying a profitable international business opportunity is the identification of a close matching of an organization's sustainable competitive advantages to the macroeconomic and microeconomic environments in foreign markets.

Management should be prepared to make numerous alterations to its existing marketing, financial and related practices in order to implement successfully its international business strategy. In some cases, this may oblige management to assume new activities, e.g. managing foreign exchange risk; however, the use of outside expertise can bring capabilities to manage those new activities at a reasonable cost. Of course, management will still need to understand the relevance of the activities, as well as how those activities support the organization's competitive strategy in order to employ outside expertise effectively and economically. Obviously, successful identification of potentially profitable foreign markets, as well as potentially successful strategies for serving those markets, requires relatively detailed and accurate macro and microeconomic information about foreign markets. For many, primarily developed countries, useful information is readily available through public sources. In particular, the Internet is a robust source of information about product markets in specific countries, as well as general economic, political and social conditions in those countries.



## 12. Reference



1. See Michael E. Porter, *Competitive Strategy*, New York: The Free Press,
2. A much fuller discussion of the international business timing decision along these lines is provided in P. Rivoli and E. Salorio, "Foreign Direct Investment and Investment Under Uncertainty", *Journal of International Business*, Second Quarter 1996, pp.335-357.
3. Hussey, D. E. (1994). *International Review of Strategic Management*. Vol. 5. New York. Wiley.
4. Ellis & Williams. (1995). *International Business Strategy*. Pittman.
5. Ball et al. (2005). *International Business: The Challenge of Global Competition*. McGraw-Hill.
6. Athanassiou. N. "Implementing Strategy, Structure and Systems. 187 -217. *International Management Behavior*. 4th Ed. Lane, DiStefano, and Maznevski.
7. Rees & Wall. (2004). *International Business*. Prentice Hall.
8. [http://www.bizbangladesh.com/investment\\_bangladesh.php](http://www.bizbangladesh.com/investment_bangladesh.php)