

# Transcription Lesson 4: Advantages of the MNE

## Slide 1

There are several convincing reasons to go international. Relying on a domestic market can be problematic. Advances in IT and web usage facilitate the adoption of e-commerce and the COVID-19 pandemic forced many businesses into the global online space. Consumers, in turn, were also forced to observe social distancing, lockdowns, and other measures to fight the pandemic. They took to online shopping, social media, teleconferencing, and streaming services. Governments encouraged online shopping for essential food items to limit the risk of infection which led to an increase in e-payments and delivery services.

Born-global organisations were ideally placed to trade internationally during this time. The pandemic also highlighted the vast digital divide between and across countries. In developing economies, the ability of small producers, sellers and consumers to access the opportunities of e-commerce was obstructed by unreliable and high-cost internet, unstable electricity connections, limited access to online payment solutions, deficient online-marketing knowledge, and consumer distrust. These factors prevented organisations in developing countries from trading across borders and deterred foreign organisations, with their know-how of digitalisation, from tapping into the tremendous growth opportunities in emerging markets.

As this discussion shows you, an MNE that has acquired or developed the resources to take advantage of opportunities in the global environment, secures a number of competitive advantages over other organisations. For instance, multinationals can often overcome trade barriers. If a local economy has an embargo against the products of an MNE's host country, the MNE may trade with that economy from its operations in *another* country where no such barriers exist. Similarly, regulatory problems can be avoided by MNEs. An MNE may, for example, merge with an existing organisation in a local economy, thereby benefitting from local relationships and governmental preference that the local organisation has. The merged organisation can claim inside relationships in *both* countries.

Because of the many factors enhancing globalisation, organisations of all types and sizes want to take advantage of global markets to expand and achieve sustainable competitive advantages.

## Slide 2

Let's look at each competitive advantage that an MNE can have.

Table 14.1 on page 387 of the prescribed book shows five strategic advantages of MNEs: **economies of scale**, **global sourcing**, the creation of **centres of excellence**,

**References:** Peng, MW & Meyer, KE. 2019. *International business*. 3rd edition. Andover, United Kingdom: Cengage Learning; WTO. 2020. E-Commerce, trade and the COVID-19 pandemic. [Online]. Available: [https://www.wto.org/english/tratop\\_e/covid19\\_e/ecommerce\\_report\\_e.pdf](https://www.wto.org/english/tratop_e/covid19_e/ecommerce_report_e.pdf) [12 October 2020].

**Attributions:** "[Strategies for expanding globally](#)" by Bright & Cortes; "[The impact of multinational corporations](#)" by Gitman, McDaniel, Shah, Reece, Koffel, Talsma & Hyatt; "[Trends in global competition](#)" by Gitman, McDaniel, Shah, Reece, Koffel, Talsma & Hyatt

servicing **global key accounts**, and diversification and reduction of the MNE's risk profile. **Risk diversification**, for example, occurs when an MNE is able to shift production from one plant to another as conditions in foreign markets change. The creation of centres of excellence allows MNEs to tap into **new technology and knowledge** from around the world. The ability to **save costs in sourcing labour** can even occur in economies that have high labour costs because the threat of an MNE moving its operations to another country may motivate unions to make concessions in order to save jobs.

In summary, the wider the reach of operations, the broader the access to cheap or skilled human resources, scarce natural resources, and technological and financial resources that are found only in other countries.

### **Slide 3**

Advantages of size create economies of scale. In other words, the bigger your company is, the more it can produce. The more it can produce, the cheaper it gets to make a single item.

The high fixed costs of setting up factories and production lines become less with every product that these facilities make. Global production means that millions of these products are being produced to meet global demand. Also, the same facilities can be used to produce many different types of products, further decreasing the cost of every unit in production.

Put simply, the amount a company spends on producing a product or service, on the research and development of a product, or even on the marketing campaign for the product, becomes less with the more people it has access to.

### **Slide 4**

Global sourcing allows access resources in a variety of locations. Imagine having the whole world open to you to source every input for your business at the best quality or the lowest price. Labour, raw materials, components... You can also access resources that are only available in a limited number of locations.

The access to these resources must be offset against the costs of getting them and moving them to production facilities. However, small cost differences can make a massive impact on the overall cost of operating the firm.

Lastly, if operational activities have low set up costs, and the institutional environment in one country changes, it is easier for the MNE to relocate to a country with the same resources and more favourable conditions.

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## **Slide 5**

Global knowledge management enhances innovation for the entire span of the organization. Global companies can tap into innovation clusters and talent around the world by placing their R&D centres in strategic locations. A Centre of Excellence is an MNE subsidiary explicitly recognised as a source of important capabilities, with the intention that these capabilities be leveraged by and/or disseminated to other subsidiaries. An example is Standard Bank, who worked together with Amazon Web services to create an AWS Cloud centre of excellence to disseminate cloud training - this is knowledge flow. This centre of excellence also provides certification, thus enhancing the capabilities and skills of their workforce across their international subsidiaries. Many MNEs have created centres of excellence with a worldwide (or global) mandate – namely, the charter to be responsible for one MNE function throughout the world.

So, how do these centres benefit the MNE?

1. They can overcome the potential replication and inconsistency of standards that may evolve in case of disconnected R&D activity.
2. The interaction between R&D units at different locations enhances creativity and idea generation and thus innovation. Bringing together people living in different environments within one organization allows for the exchange of knowledge, experiences and competencies, which in turn facilitates the generation of new ideas and innovations.
3. Centres of excellence allow exploitation of comparative advantages.
4. R&D centres around the world provide interactions with different customers and hence projections on future market trends.

## **Slide 6**

Why buy from a different supplier in each location if you can buy from one supplier who serves all these locations? The MNE is best positioned to serve clients that are also operating globally. These are global key accounts. Global key accounts negotiate contracts with those organisations that can provide the same product or service at multiple sites. These suppliers will therefore have a distinct competitive advantage over other organisations.

## **Slide 7**

The last competitive advantage is risk diversification. By operating in multiple countries, the MNE reduces their financial risk profile. Risk diversification, for example, occurs when an MNE is able to shift production from one plant to another as the conditions in the foreign markets change. This makes their sales less volatile than an organisation operating in one country. The organisation can step back from the country

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experiencing an unfavourable event and refocus its efforts on the other countries that are still stable.

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