

UWTSD MBA HKBM7009
(UWMBA-30013-2023-1-SS)

Global Business Challenges (7-1)

Challenges and Resolutions

Che Cheong POON
25 February 2024; Sunday 12:30pm to 3:00pm
Tutorial : 3:30pm to 6:00pm

Top global risks in order of intensity

1. COVID-19
2. US corporate debt burden turns downturn into a recession
3. Contagion spreads to create a broad-based emerging-markets crisis
4. China suffers a disorderly and prolonged economic downturn
5. Supply shortages lead to a globally damaging oil-price spike
6. Cyber-attacks and data integrity concerns cripple large parts of the internet

Consequences:

- Rising inflation rate (include rising fuel prices)
- Rising interest rate
- Rising unemployment rate
- Rising information cost
- Rising world poverty
- Rising income inequality

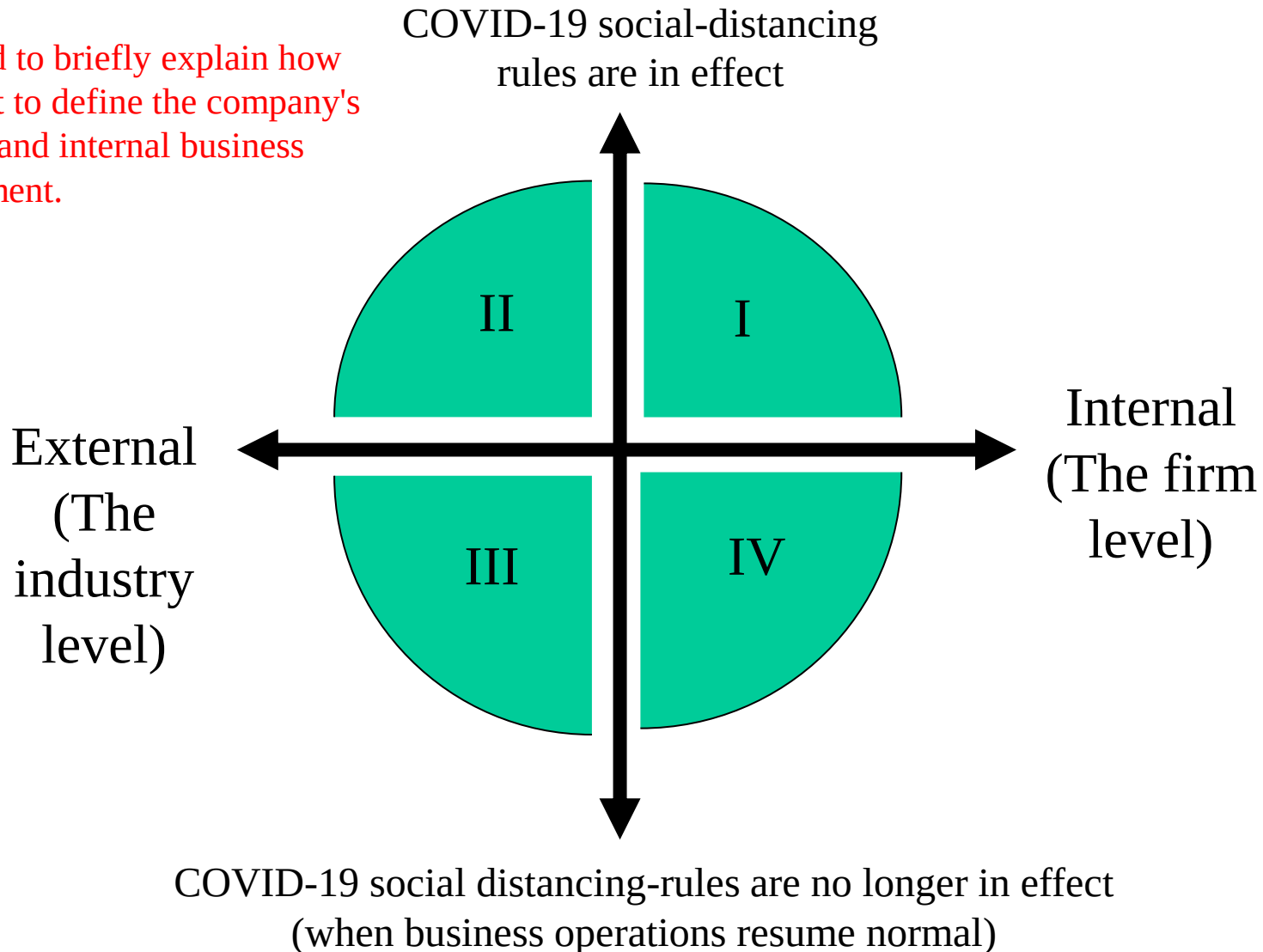
Lecture Agenda :

- Impact of the COVID-19 on the Global Economy
- Revisit Globalization
- Corporate Social Responsibility in a Global Economy
- Regional Integration and International Strategies
- Overcoming Five Top Challenges of International Expansion

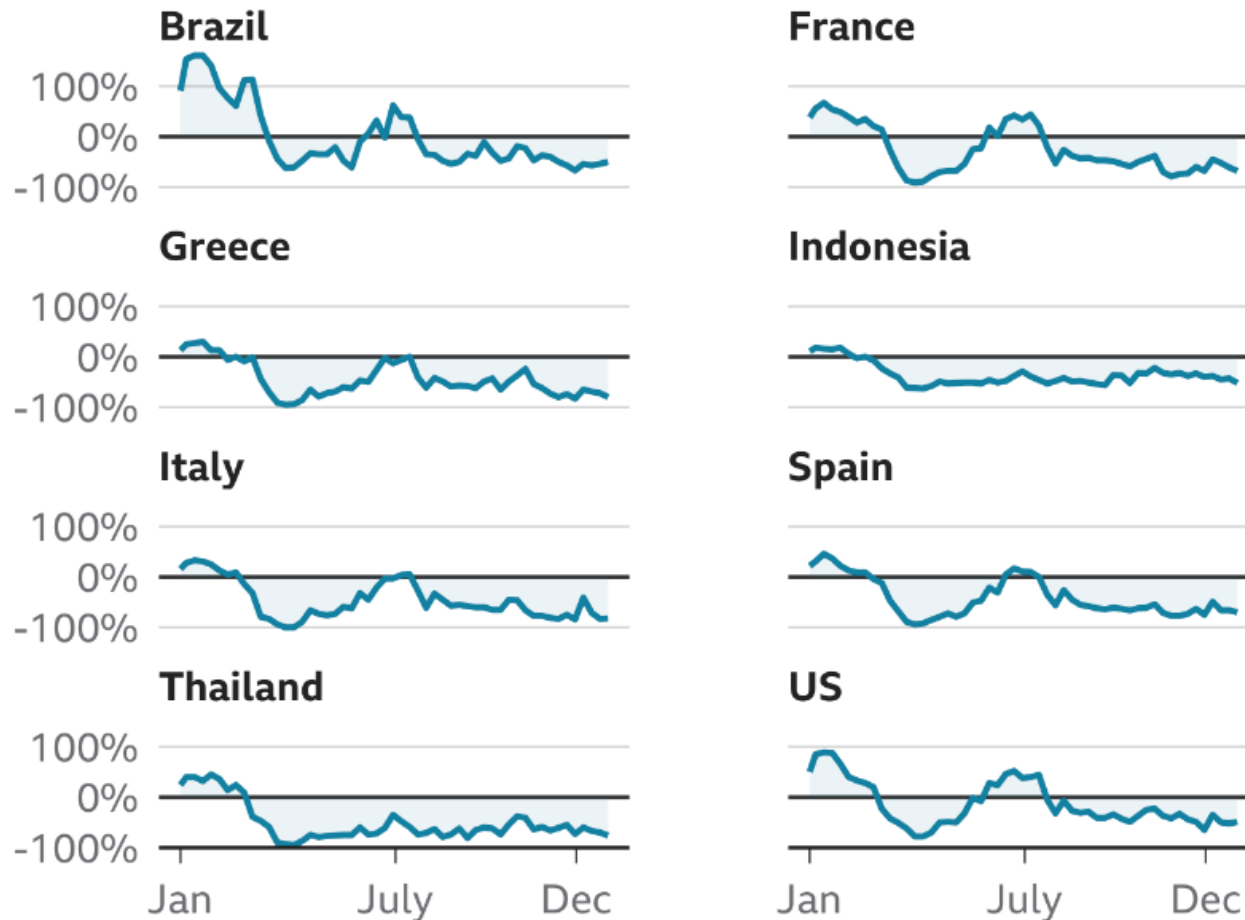
Impact of the COVID-19 on the global economy

Challenges facing Hong Kong Tourism Industry during and after COVID-19: A quadrant presentation

You need to briefly explain how you want to define the company's external and internal business environment.



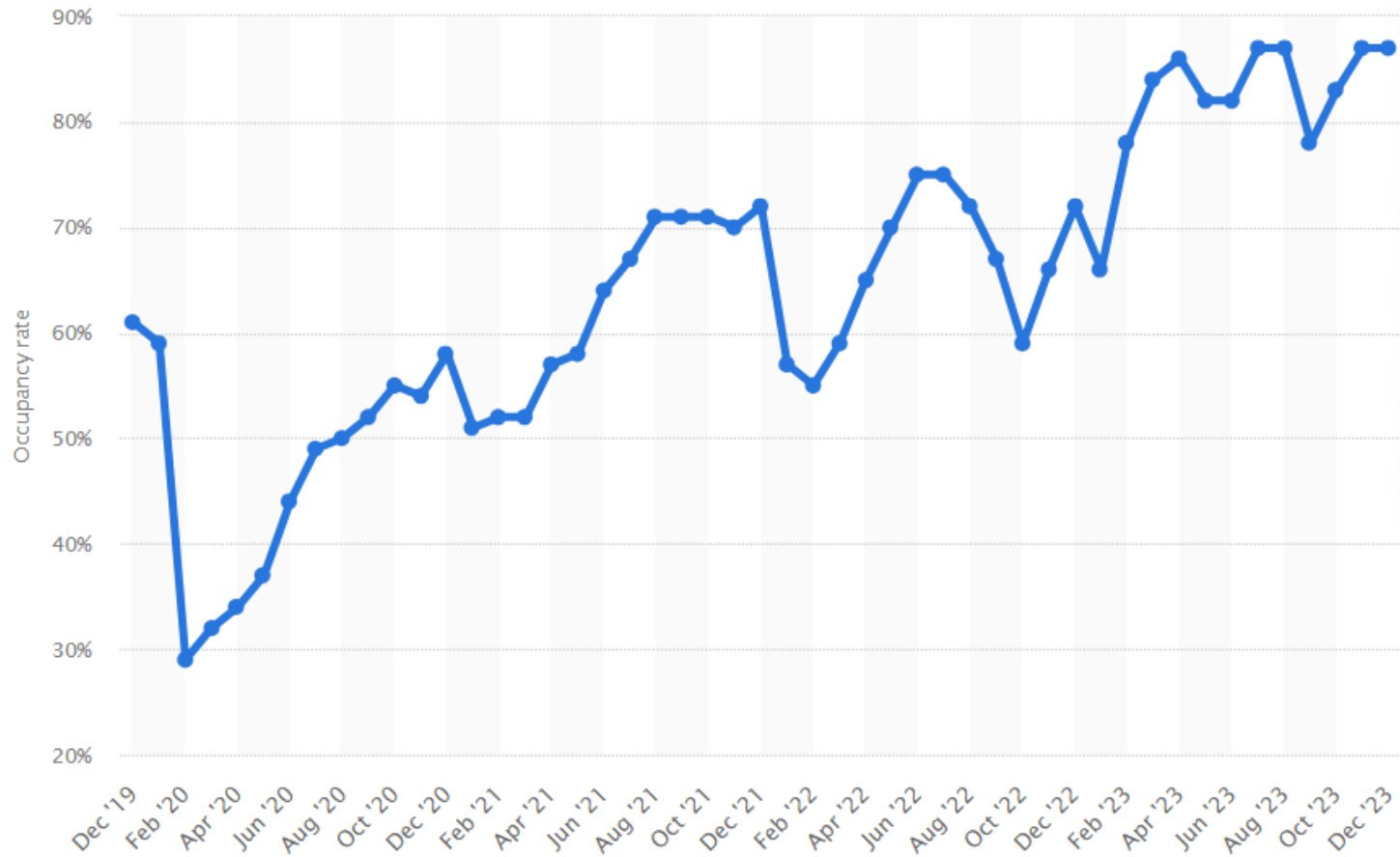
The global tourism industry is crumbling:
Weekly percentage change in the number of reservations (2019-2020)



Source: SeeTransparent, 24 January 2020, 00:01 GMT

BBC

Average monthly hotel occupancy rate in Hong Kong from December 2019 to December 2023



Sources:

<https://www.statista.com/statistics/1241594/hong-kong-monthly-average-hotel-occupancy-rate/>

Quadrant I:

Internal challenges if COVID-19 social-distancing rules are in effect

- Firms in the industry have been suffering a large-scale job losses.
- Many investors in the industry are unable to stay in their businesses because they have been suffering from drastic decrease in their business revenues or turnover.
- Access to bank credit is critical for tourism firms' survival in the current context.
- Although government has implemented some form of fiscal packages to provide temporary income support to employees and business owners of the tourism sector, it is hardly support for business survival.
- Tourist service providers and workers are facing an uncertain future, they may have an intention to change occupation.

Quadrant II:

External challenges if COVID-19 social-distancing rules are in effect

- Compulsory quarantine for 7 to 21 days in a designated hotel or at residency.
- Stop issuing Visa by many countries
- Stop some visitors who are coming from high infection countries
- Flight cancelation or reduction
- People's travel intention have significantly fallen because of the stringent travel restrictions and widespread fears keeping people indoors
- The pandemic has impacted the tourism industry due to the resulting travel restrictions as well as a slump in demand among travelers.
- People's purchasing power has significantly fallen due mainly to government's pandemic control measures.

- Travelling in a group can be an appealing way for people to meet others and to save money on travel. However, this option is likely going to become increasingly unattainable. Because travelling with strangers widens everyone's 'bubble' and increases the reliance on others to practice safe behaviours.
- The choice of the airline may no longer be solely price driven, rather decisions will be influenced by hygiene standards; e.g., if masks are compulsory or not, seat occupation spacing etc.
- While it is still uncertain as to when the world will be able to freely travel once more, there will be many people worldwide who are already keen to plan a trip to reunite with family and friends as soon as possible.
- Many world/local heritage properties are currently closed, and many intangible cultural heritage practices have been suspended.

Quadrant III:

External challenges when COVID-19 social distancing-rules are no longer in effect

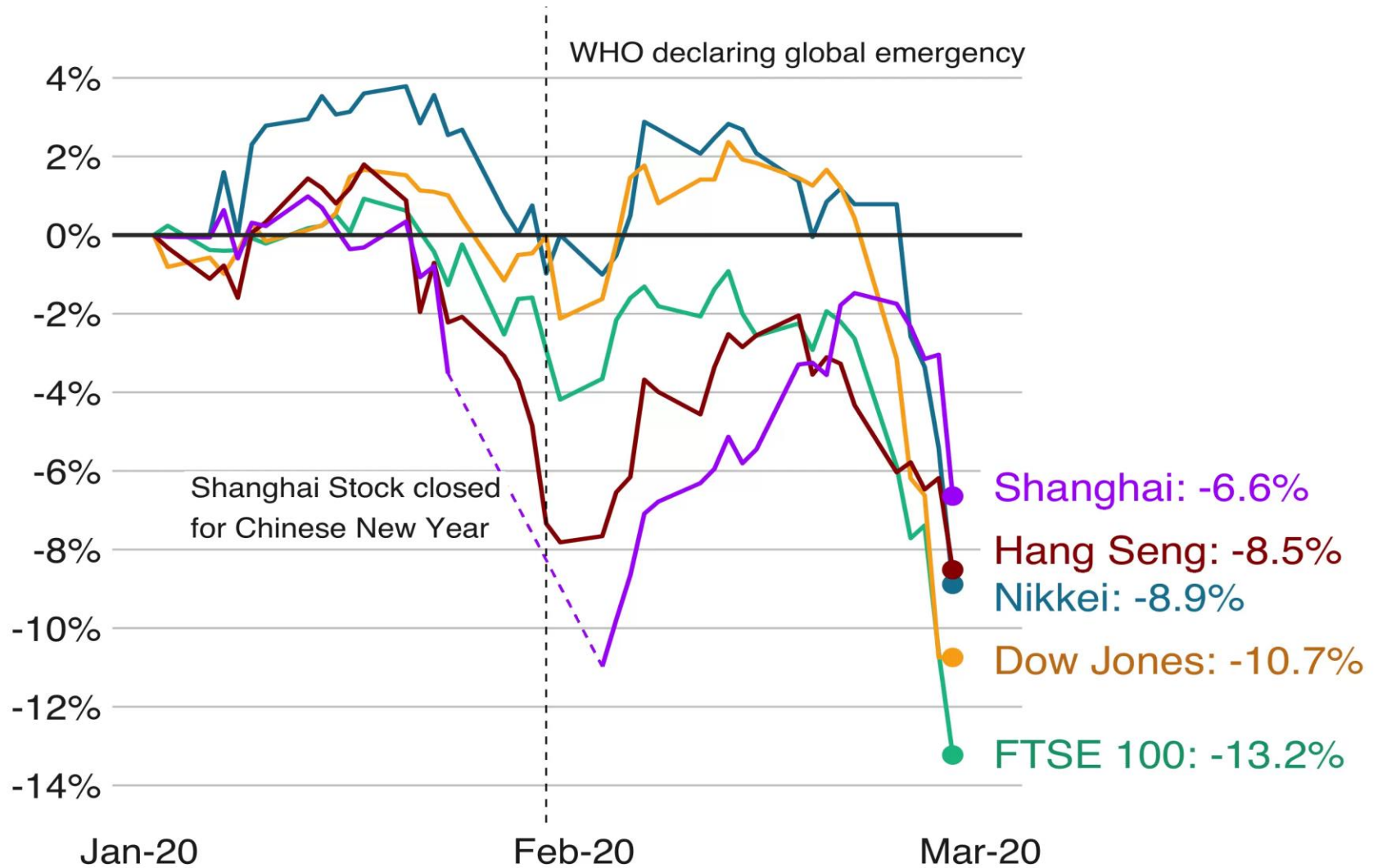
- As the world slowly recovers from COVID-19 and borders gradually start to open, we expect travel to look a little different than it did pre-pandemic.
- Governmental regulations, health awareness and the long-lasting attitude effects of a global pandemic will mean changes for the way your business may operate.
- With a considerable amount of uncertainty regarding travel safety and contradictory information rife online, travelers will continue to look towards the experts when it comes to planning their trips.
- Businesses will not be eager to resume flying after successfully shifting meetings online, thus the number of business travelers will decrease significantly.
- There will be a keen competition between Traditional travel agencies and online travel agencies.

Quadrant IV:

Internal challenges when COVID-19 social distancing-rules are no longer in effect

- When the tourism business rebound comes, it would be difficult to recruit enough frontline staff.
- Travel will become increasingly complex, and travelers may engage with agents and tour operators simply to help them manage the complicated airline arrangements and health regulations they must adhere to. Thus, expert staff are required.
- A numbers of business partner firms have been shut down during the pandemic; thus, the firm must reestablish the business network.
- The destination popularity is dictated by how well that country or region has controlled the coronavirus. Thus, the market is narrow, and the competition is keen.
- Since the consumers' purchasing power is much lower than that before the outbreak of the pandemic on one hand, and the cost of tourism services is higher than on the other hand, a low profit margin is expected.

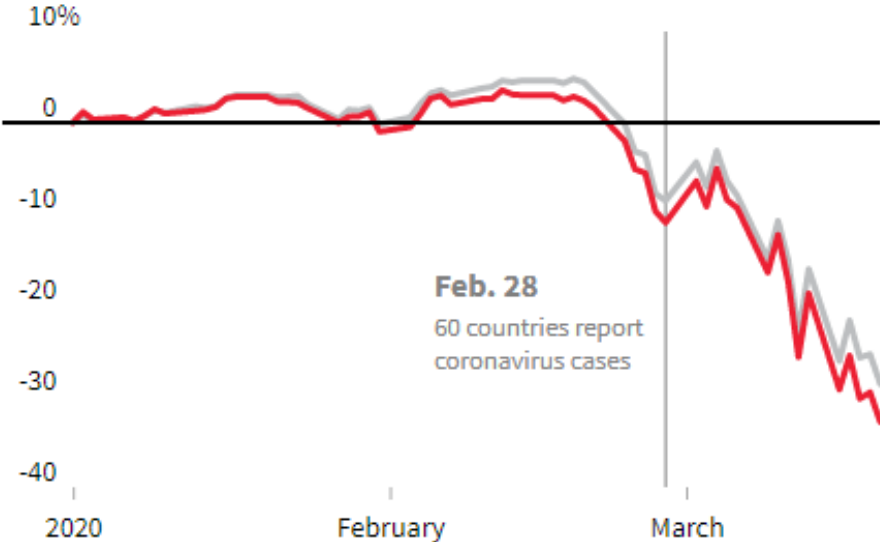
The impact of coronavirus on stock markets at the start of the outbreak



DOWN MARKET

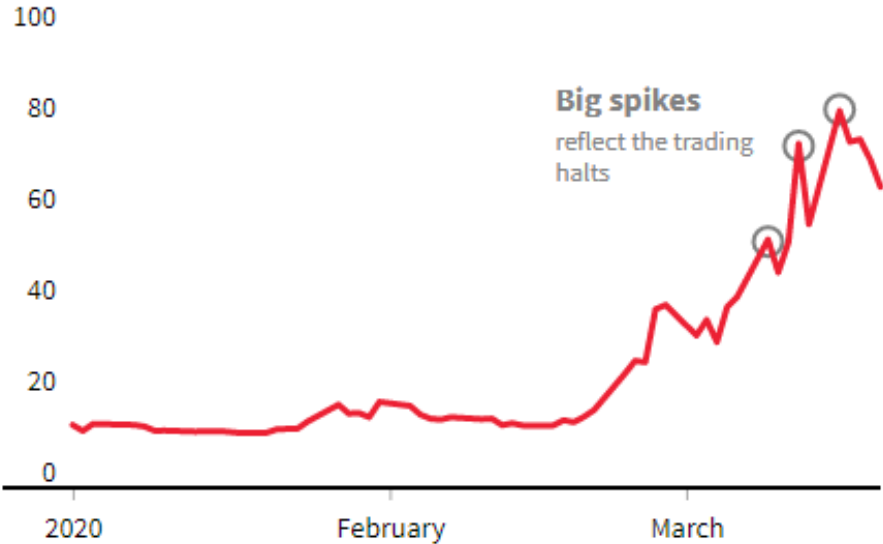
Percent change since January

Dow Jones S&P 500

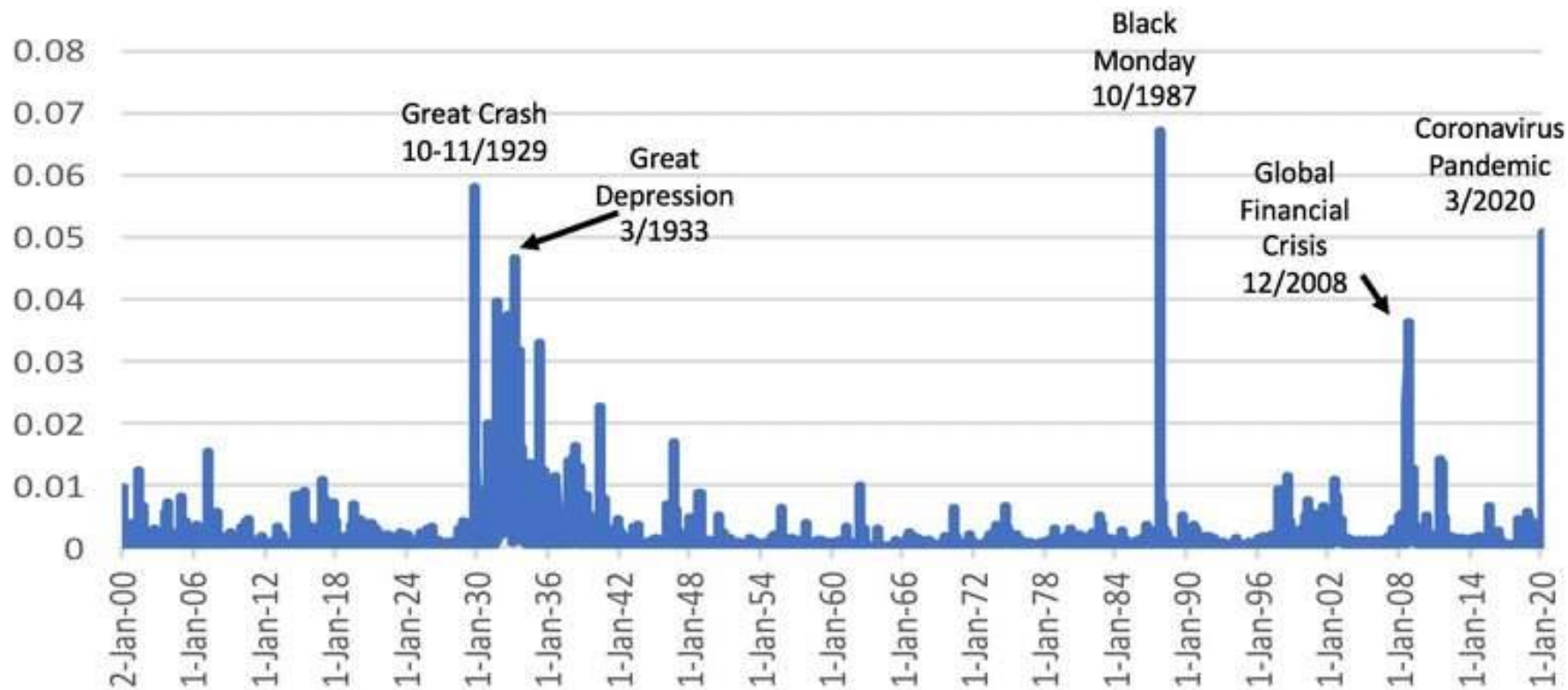


CBOE VOLATILITY INDEX

VIX represents an expectation of stock market volatility based on the S&P 500.

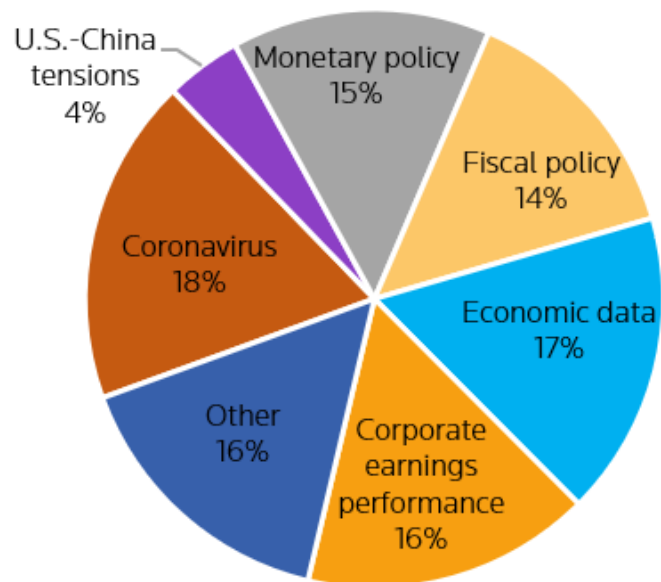


120 years of U.S. stock-market volatility (over 10 trading-day periods)

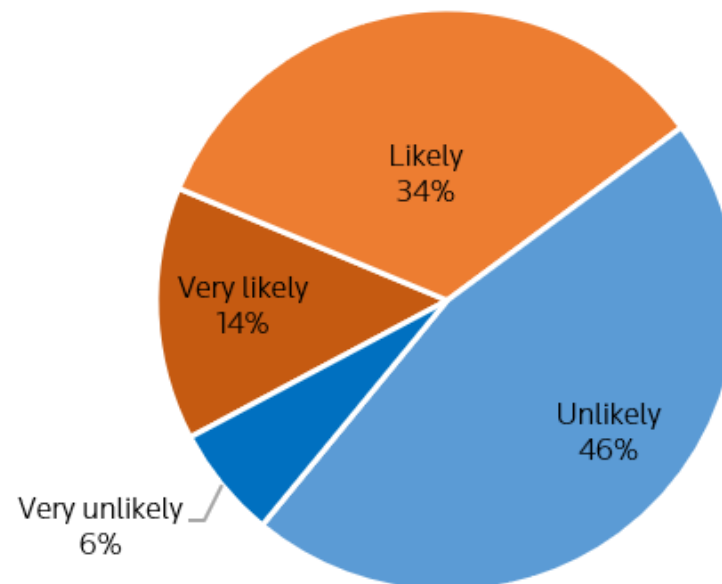


Reuters Poll: Global stock market outlook

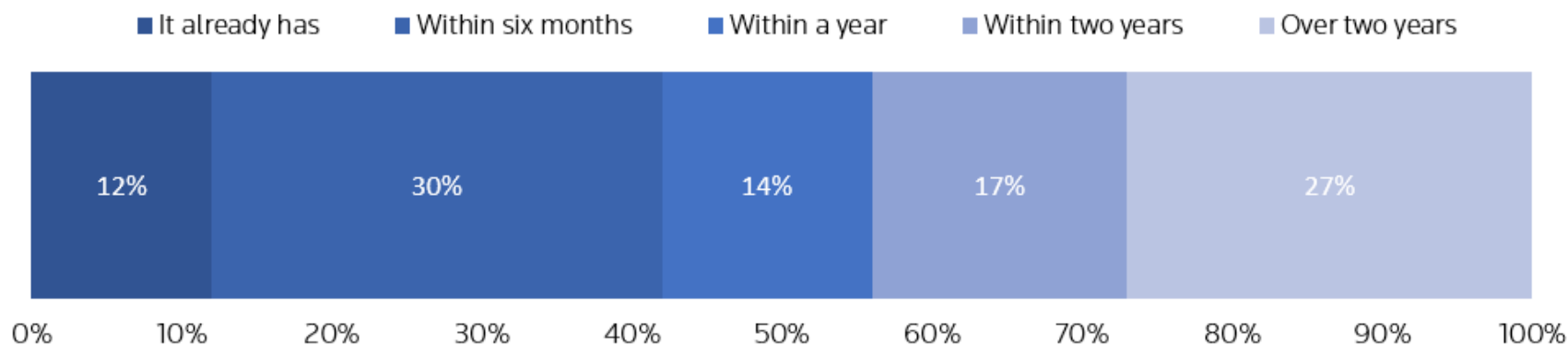
Primary driver of stock markets for the rest of 2020



Likelihood of a serious correction in stock markets in the next three months



When will the bull run in global stocks end?

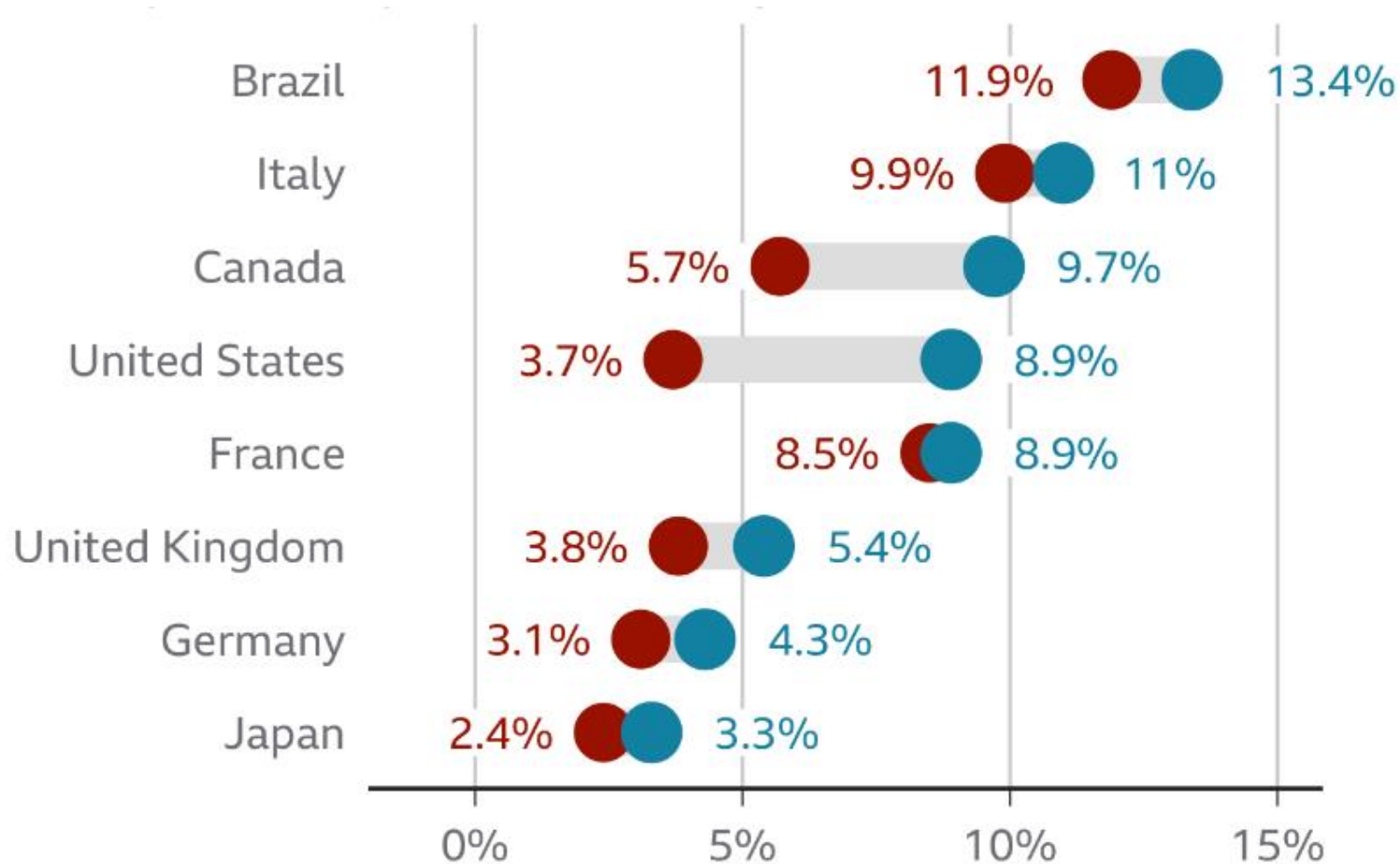


Polls conducted August 12-25, 2020. Nearly 150 equity strategists responded

Source: Reuters Polls

Indradip Ghosh and Mumal Rathore | REUTERS GRAPHICS

Yearly unemployment rate, 2019 and 2020 compared

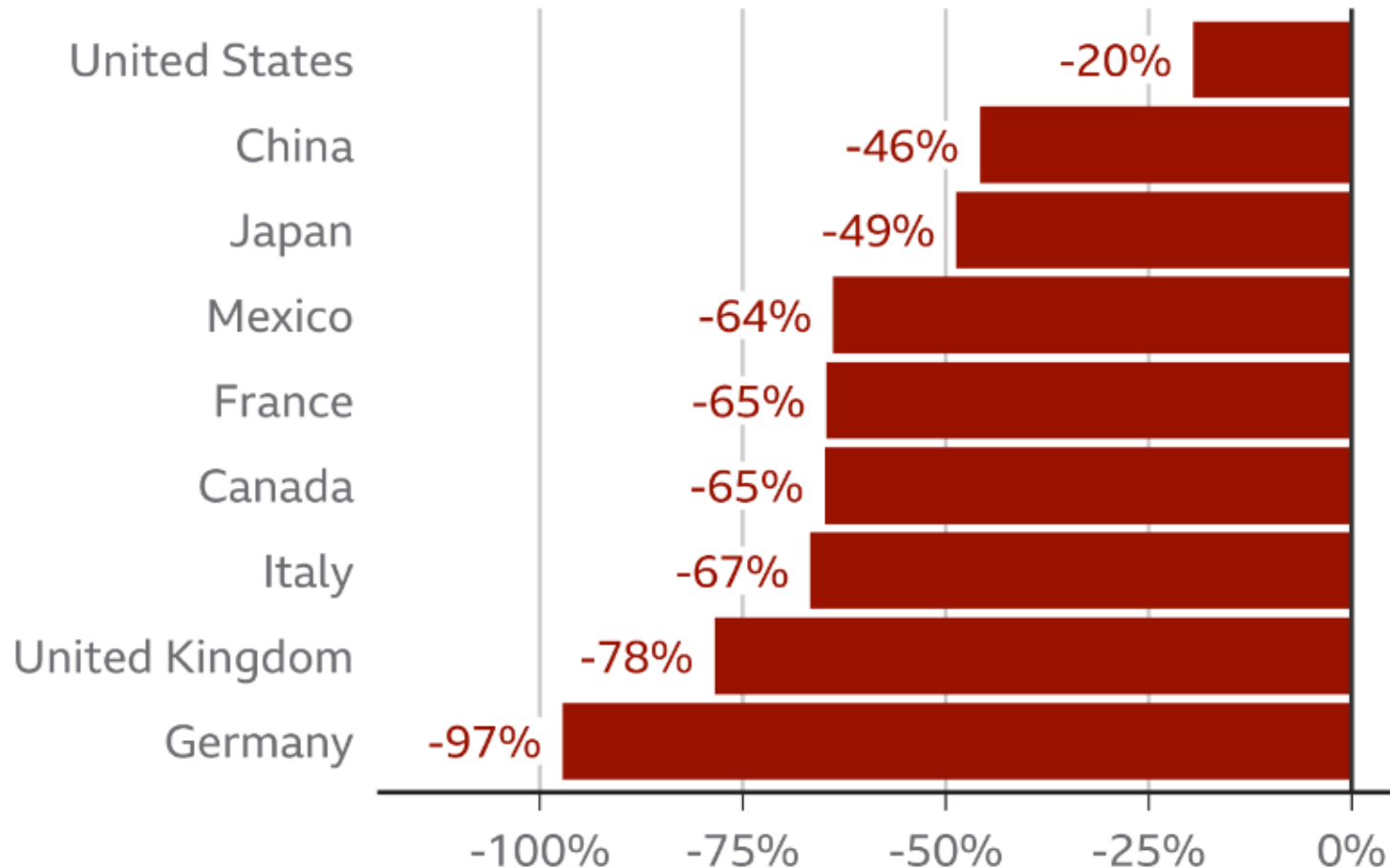


Source: International Monetary Fund

BBC

Huge drop in shoppers

Annual percentage change of footfall, 12-28 Jan 2021 compared to same dates in 2020



Source: ShopperTrak, 24 January 2021, 00:01 GMT

BBC

Strategic responses of the hotel sector to COVID-19 to boost hotel occupancy rates:

1. Create Promotions & Packages (Staycation Package is an example).
2. Offer Technology Like Canary Contactless Check-In & Checkout.
3. Attract Group Business
4. Encourage Repeat Customers
5. Change Your Marketing for Times of Low Demand
6. Manage your online reputation
7. Partner With Local Organizations
8. Attract Business Travelers & Corporate Travel Managers

Le, D., & Phi, G. (2021). Strategic responses of the hotel sector to COVID-19: Toward a refined pandemic crisis management framework. *International Journal of Hospitality Management*, 94, 102808.

<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8586793/pdf/main.pdf>

Revisit globalization

Globalization: Problem or Solution?

- Globalization as redefining change: Just like the Industrial Revolution, **globalization entails radical change**. Pundits emphasize different features of globalization to stress the kind of changes that globalization brings.
- Globalization as a solution: Communication allows the world to be a global village; **free movement of capital/ investment** allows for well-needed funding of underdeveloped industries in underdeveloped countries.
- **Globalization as a problem**: ruin third world economy; international division of labour; increase the economic discrepancy between classes; mono-culturalism.

Reactions to Globalization

- Globalization is **the promoter of strong reaction**: Protests, Terrorism
- Concerns about globalization: Foremost in these **fears** are over unbridled American power, might of big business, pace of economic change, growing divide between rich and poor, failure of state to regulate market fundamentalism, regional inequalities
- **Commoditization of everything**: Consequently, a system that is so hellbent out on defining everything by the market will have a market value (everything is fitted into a supply and demand category)
- Triumph of liberalism: Globalization is packed with a liberal ideology, which preaches individualism (as opposed to collectivism), “rationality” (as opposed to tradition) and progress (as opposed to “backward-oriented” societies)

- Benefits of globalization are fourfold:
 - 1) expanded pie vision so that everyone's lot is improving;
 - 2) information penetration which will undermine elite control while creating a real-time information economy;
 - 3) a universal solvent vision that washes away autocratic regimes through trade liberalization and foreign investment;
 - 4) “peace dividend” by weaving interdependencies between nation-states (i.e., in particular, democratic peace theory – that democracies don't go to war with one another).

- Information age: Globalization has been also synonymous with the information age.
- Outsourcing: Outsourcing occurs when companies find a nation, where they do business, that is cheap (in labour wages) and considered “business-friendly”.
- Multi-dimensional globalization: Globalization is multidimensional, it is an economic phenomenon; political phenomenon; cultural; social disruption and communicative.
- Globalization is a bourgeoisie Process: Globalization is defined as the geographic penetration of capitalist market relations into new sites of production in relentless quest of profits.

- **Four implications** that follow:
 - 1) Globalization constitutes an international system of exchange with its own set of rules, logic, structures and procedures (there is a significant increase in cross-national flows of trade, investment, and technology that reflects and reinforces a global division of labour);
 - 2) Globalization goes beyond a simple economic shift created by the cross-border exchanges of high technology, instantaneous communication, investment, reduced subsidies, and free trade;
 - 3) the ascendancy of globalization has compelled a rethinking of what society is for; and
 - 4) the interplay of world economic markets and globalization has undermined conventional thinking about national sovereignty
- **Common theme of globalization:** The common theme is that globalization offers both the prospects of great benefits, but these benefits are often overshadowed by the human costs and consequences. Globalization is a double-edged sword.

Corporate social responsibility in a global economy

Should it be limited to serving only its shareholders?

The corporation's role

Should it have a greater responsibility to the community, both for the present and the future?

Perceptions of Corporate Social Responsibility (CSR)

- **Corporate citizenship** and the company's responsibilities in society and the environment have become central considerations amongst companies around the globe.
- From its origins at the periphery of **business ethics** and **social engagement**, CSR has become central to business practice and organizational functioning.
- Its centrality in the perceived function of organizations of all kinds means that it has become embedded in corporate strategy and now offers a logical framework for much of its planning and execution.

- In strategy it is evident in a number of areas: in stakeholder identification and relations, goal alignment and the generation of value. Communication and reputation strategy often extend from a company's CSR strategy, with the bottom line extended to the broader conceptualization that includes finance, society and environment.
- CSR is now a common consideration in the planning and implementation of overall strategy and many of the functions of the enterprise.
- The establishment of CSR as a guiding principle in business practice is largely the result of the proposition that companies ensure their success by doing good in all they do.

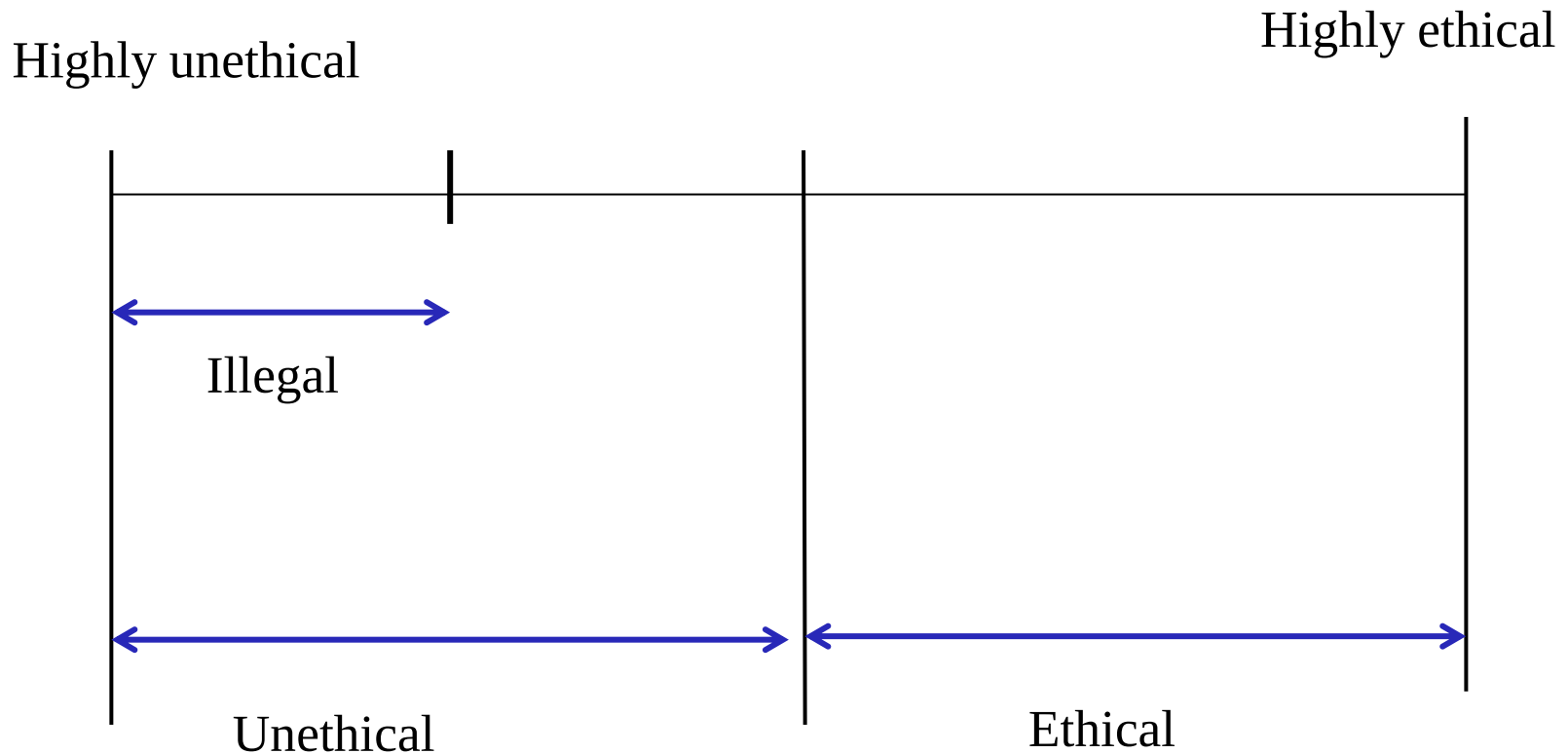
Corporate Social Index (CSI)



Source:

Kanji, G. K., & Chopra, P. K. (2010). Corporate social responsibility in a global economy. *Total Quality Management*, 21(2), 119-143.

Spectrum of business ethics



Source:

Dolecheck, M. M., & Dolecheck, C. C. (1989). Ethics: take it from the top. *Business* (Jan-March 1989), 13.

Ethics in a Transnational Corporation (TNC)

- A company that is unable to grow further in its domestic market, either due to **market saturation** or **anti-trust regulation**, may reap further economies of scale and scope through not only exporting its product but also producing it abroad.
- The primary incentives for TNCs to expand into developing countries is **the availability of lower-cost labour** and **the need to exploit natural resources that have been depleted at home**: for example, timber and iron-ore.
- In the light of their **market power**, which is particularly prevalent in developing countries, TNCs are attracting increasing attention from environmentalists and ethicists. Within the last two or three years questions concerning the ethicality of various business practices, particularly those affecting **the natural environment**, have garnered increasing public attention.

- Vitell and Davis (1990) define business ethics as the "[inquiry into the nature and grounds of moral judgements, standards and rules of conduct in situations involving business decisions](#)" (p. 64). Thus ethics is concerned with the motivation for action rather than the action itself. Consequently, the main problem with any empirical evaluation of business ethics is that the observable action will not necessarily betray the underlying motivation for that action.
- Example 1 [Pharmaceutical TNCs in Ireland](#): Approximately one quarter of the waste produced by pharmaceutical companies is classified in the U.S. as "hazardous." Such plants operating in the U.S., therefore, are forced by law to go to considerable expense to treat and dispose of their waste substances. Several American pharmaceutical companies are operating production plants in Ireland.
- Example 2 [Oil TNCs in Amazonia](#): Significant oil reserves have been discovered in the Amazon basin. Several American-based TNCs are currently exploiting these reserves. Occidental Petroleum Corporation, for example, recently reached an agreement with the Government of Peru to increase its production from rainforest areas by 20,000 barrels a day.

Guiding principles

- Managers are agents and have a fiduciary responsibility to shareholders. Given that the ethical beliefs of the principal and agent may not concur, managers should not let their personal ethical beliefs influence economically based decisions.
- Ethical decisions should be made by individual principals. The ethical decisions of these stakeholders will enable managers to make ethical choices that are also economically optimal.
- All of us, as consumers and shareholders, must bear the responsibility for guiding TNCs to make what we regard as ethical decisions. We should not expect the managers of these massive, diversely held, corporations to make our ethical decisions for us.

Pause



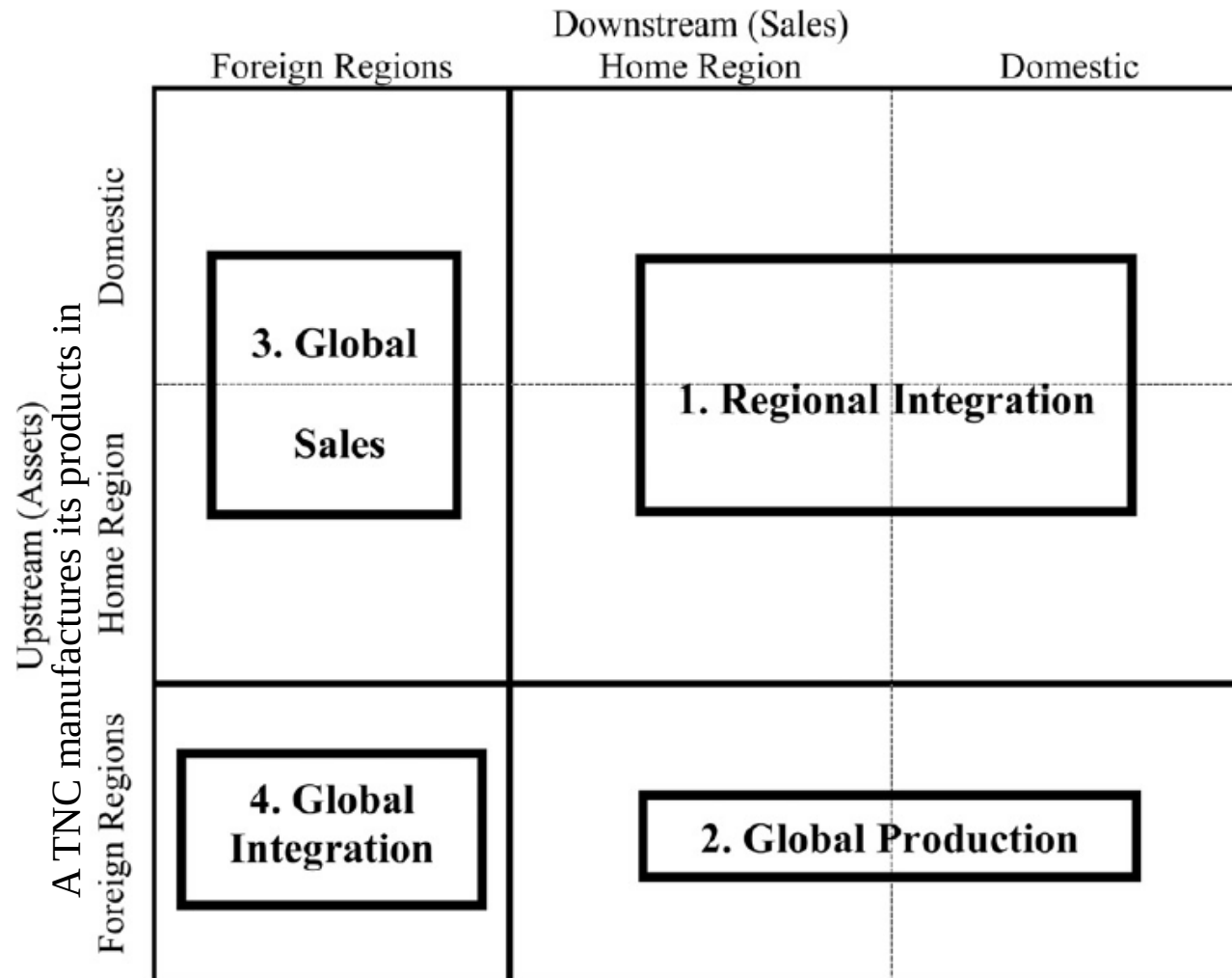
Regional integration and international strategies

Oh, C. H., & Rugman, A. M. (2012). Regional integration and the international strategies of large European firms. *International business review*, 21(3), 493-507.

From the perspective of regional economic integration, we decompose international strategy into regional integration strategy and **three types of global strategy** (global sales, global production, and pure global integration).

Regional integration and international strategies:

The international and regional presence regarding sales and assets



Four types of international strategies

When discussing the TNC activities outside of its home region, we can modify Bartlett and Ghoshal's **three types of firms** from the perspective of regional integration.

1. A TNC manufactures most of its products in a foreign region due to high country specific advantages (CSAs), such as labor costs, human capital, natural resources and technology. Although some of the products sell in the foreign region in which they are produced, the majority of the products sell in the TNC's home region through intra-firm trade channels (from the foreign region to the home region). We call this type of strategy **a global production strategy which corresponds to Quadrant 2** in the Figure. Thus, the upstream activity of the TNC is global, but its downstream activity is regional.

2. Next, an TNC manufactures its products through its regional supply chains, but the products are exported (using both intra- and inter-firm methods) to foreign regions. Three reasons exist for using this type of strategy.
- First, a TNC manufactures its products in a regional cluster but sells them worldwide in order to achieve economies of scale and scope.
 - Second, industry and product lifecycles lead the TNC to export its products to a foreign region as the home region market is already mature, but the TNC still has an excess production capacity or inventory.
 - Third, a TNC's knowledge and production knowhow are too complex to transfer to its foreign region subsidiaries where the human capital is limited.

We call this type of strategy **a global sales strategy, which corresponds to Quadrant 3** in the Figure. Thus, the downstream activity of the TNC is global, but its upstream activity is regional.

3. A TNC develops its own capabilities in each foreign region. If it is a European TNC, then it will develop its subsidiary-specific capabilities in North America and Asia-Pacific separately. The TNC improves its regional responsiveness, so that most of its activities can stay within a foreign region (i.e., produce and sell in the same region). The TNC can integrate and coordinate these capabilities through its regional headquarters, and some, but not many, of the activities may interact inter-regionally. We call this type of strategy **a pure global integration, which coincides with Quadrant 4** in the Figure.
4. Our four types of international strategies also refine Porter's industry-level international strategy at the firm-level. Porter (1986) divides international strategy into multi-domestic industry and global industry. He explains multi-domestic industry as “industries in which competition in each country (or small group of countries) is essentially independent of competition in other countries” (p. 11). However, except for a few industries in countries that are perfectly protected by the national government, no such independent industry exists due to economic integration. Thus, we replace the impractical multi-domestic strategy **with a regional integration strategy, which coincides with Quadrant 1** in the Figure.

Overcoming five top challenges of international expansion

As you make your first steps into international trading there are a lot of variables to consider. You'll need to know what sort of company are you, who are your customers, how quickly are you planning to expand, how much time and money are you willing to invest, and – perhaps most importantly – which country or countries do you hope to expand into?

Why do Borders matter for firms doing business in the global economy?

- Tariffs and quotas.
- Customs.
- Regulations.
- Permits.
- Currencies
- Legal systems.
- Language.
- Culture.
- Habit

Challenge 1: Language and cultural barriers

- If you don't speak the same language as your customers, communication is going to be a challenge.
- The challenge you might face expanding into a country with a radically different culture.

Solution:

Adapt to the environment and establish a go-to market strategy

- It's certainly possible to use Google Translate, but you cannot simply rely on it.
- You need at least one person on your team who speaks the local language.
- You should understand that different countries work at different paces.
- Your company needs to be aware of the infrastructure you have to work with, and to compete with, in your target country.
- Your company will need to evolve to face the realities of your new market.

Challenge 2: Local competition

- Local competition might put you at a disadvantage right from the start.
- You'll have to deal with import fees and tariffs, potentially slower turnaround times.
- You need to deal with two currencies while your competitors can just work in their local currency.

Solution:

Find the right partner and build relationships with local businesses

- You can build working relationships with overseas companies (shipping, storage, and logistics firms for example) and use these to help your business grow.
- By working closely with them, you can deliver your products to their customers, or have them help you find your own customers, making the transition into trading in your target country that much easier.

Challenge 3: Tax codes and compliance issues

- Dealing with tax can be a headache even when you're only operating in a single nation. Dealing with taxes, fees, and tariffs for international trade can be a major obstacle for a lot of companies.
- Failing to meet compliance regulations in a country you're attempting to expand into can not only put a halt to your expansion plans, but also create additional costs in your home country.

Solution:

Do due diligence and sort out legal procedures, tax, and finance

- Making sure you or someone working for you knows exactly what they're doing, it doesn't need to be a problem.
- Most tax and legal requirements ultimately amount to ticking the right box, so all you need to do is make sure you know which box you need to tick before you start expanding.

Challenge 4: Supply chain risks

- Imports, exports, shipping, and logistics are all things that large enterprises have departments dedicated to. That's because managing a supply chain that crosses national boundaries can be a real challenge.
- What if a container ship full of your goods is delayed a week, or doesn't show up at all? What if your goods are impounded by customs?

Solution:

Develop a strategy, a business plan, and a budget

- Imports, exports, shipping, and logistics are all things that large enterprises have departments dedicated to. That's because managing a supply chain that crosses national boundaries can be a real challenge.
- What if a container ship full of your goods is delayed a week, or doesn't show up at all? What if your goods are impounded by customs?

Challenge 5: Operational risks with hiring staff

- You will need more staff to handle the increased pressure on your business of working in another country. You may even need to hire staff on the ground in the new country.
- However, hiring more staff is always a risk. You'll not only have increased overheads, but you'll have to put your trust in new people – potentially even new people you never meet face to face.

Solution:

Making sure your product and organization are ready, and establish a great team

- If you take care with who you hire, and how you manage them, you can leverage their expertise, skills and strengths to achieve your company's goals and objectives.
- If you do these well, the increased revenues and profits can easily pay for some extra time and/or staff to help manage your newly-invigorated micro-multinational.

Thank you
for your attention !



Please back by 3:30 pm