



Bachelor of Arts, Business and Management

The Global Business Environment

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Introduction

This report will discuss about international business and business environment analysis by choosing a company from UK -Tesco and moving its production in another developing country- Chile. Moving the production to Chile will help Tesco to deploy the necessary strategies in achieving the objectives of internationalization. The purpose is to evaluate the opportunities, challenges, business strategies and analyse the barrier experienced by foreign business.

The business environment is characterised by stiff competition and this has been prompting organisations to seek internationalising operations to enhance the generation of revenues. Internationalisation focuses on making organisations expand their global footprints beyond the domestic markets. However, internationalisation needs organisations to analyse the internal and external factors before internationalising operations. For instance, in the case of Tesco, the company wants to expand its market in food products. As a result, through Foreign Direct Investment and Joint ventures as internationalisation strategies, the company will realise its potential.

Company Background

Jack Cohen is the man behind the establishment of TESCO in 1919. After exploring the UK market and establishing a superstore format (Tesco Extra) and other stores (Tesco Metro), the company started seeing the need of internationalising its operations to meet the growing demand for its goods and services. Tesco's first expansion is traced back to 1995 in Hungary, the Republic of Ireland, and Slovakia, among other countries. As of today, the company is operating in almost 12 countries including many areas in the UK (Aiello et al., 2020).

Country Background

Chile is a country located in the western part of South America and became independent in 1818 from Spain. Chile covers an area of 776,096 km² with a population of 19,506,900 million in 2022. The country is led by Gabriel Boric as the president. Chile's corporate environment is termed to be more of economic freedom, enough labour supply, and also easy access to capital for entrepreneurship activities. The country's corporate tax is considered one of the most suitable for establishing business operations as it normally charges 17% of the businesses. The tax rate is the second lowest in Latin America. Chile also being a member of international Trade treaties provides an equitable environment for international businesses to establish their operations (Espinoza et al., 2019).

Application of Theories of the Business Environment

PESTEL Analysis

PESTEL analysis entails a framework that aims at evaluating the external environment where the business operates. Through the PESTEL analysis, the management of Tesco will be aided to formulate strategic decisions regarding the establishment of operations in Chile.

Political Factors

Chile has evolved to become one of the most established democratic countries in Latin America. The democratisation of the country has led to the creation of a safe and stable environment that promotes business operations. The country is also advantaged by its drastic efforts to curb corruption and as of today, corruption is illegal in Chile. Chile also boasts of a well-structured criminal justice that ensures criminal activities related to business operations are solved by the law. The democratic regimes of the country have been suitable in coming up with suitable policies that have enabled the country to survive hardships such as earthquakes and economic recessions (Postero et al., 2018).

Economic Factors

Chile's democratic government has been agitating for attaining a fully developed Chile in terms of economy. This goal is attributed to drastic policies which are pro-free markets for the establishment of international business. The free-market policies have been essential in negating unemployment, increasing foreign investments as well as the termination of sanctions placed by foreign countries. According to The World Bank (2021), Chile's GDP is estimated to reach 322.00 USD Billion by the end of this year meaning that the country has the potential for economic growth.

Social Factors

Chile's demography is suitable for the establishment of international business. For instance, most Chileans are well-educated and skilled. These skills mean that majority of individuals are entrepreneurial conscious to support the internationalisation process of Tesco. Additionally, Chileans' attitudes have been changing over and over and this has been as a result of the digitalisation of business activities. The changing attitudes particularly among the millennials are important milestones that foster the internationalisation of business activities (Paydar et al., 2022).

Technological Factors

Technology has been an important milestone in revolutionising various sectors of the business environment across many countries. Chile is one of the countries that has manifested the impact of technology in sectors such as transport, communication, and the production of goods and services. Through pro-technology policies initiated by the government, Chile is a designated area that supports the internationalisation of businesses (Lebdioui et al., 2021). The availability of the

technology means that Tesco will be eased in various departments such as the supply chain, innovation, and also transportation of marketing of products and services.

Environmental Factors

Chile like any other country globally has established various environmental regulations that guide the conduct of international and domestic organisations. For instance, through the Environmental Law 2021, Chile is designated to confront the challenges of climate. This means that every organisation intending to establish operations in Chile has to conform to the need of reducing emissions to water bodies or air (Paydar et al., 2022). The prevention of emissions provides organisations to adopt new mechanisms such as renewable sources of energy to promote environmental sustainability.

Legal Factors

Chile has a well-established legal system that has been conforming to international statutes in promoting free trade. Through the legal frameworks, Postero et al. (2018) note that business operations have been hindered by violating copyrights or patent laws, employment laws, or sometimes discrimination laws. Any business found violating these laws is subject to punishment including even disbandment of operations in Chile's jurisdictions.

Opportunities and Challenges Present in Chile

Some of the best opportunities will be in high-value innovation projects such as 5G technology and smart grid technologies. Other opportunities to develop a business in Chile are:

Tax Advantages

Chile's tax rates provide a suitable environment for international businesses to establish their operations. For instance, organisations that have a gross income of above 2.3\$ (USD) are mandated to pay a corporate income tax of 27%. This income tax is accompanied by credit costs. Additionally, Chile's import and export tariffs are taxed at 6% which is evaluated or calculated based on CIF value (cost of goods + insurance coverage + freight transfer value) (Chile, 2020). The tax advantage provides an opportunity for Tesco to establish its operations in Chile to maximise revenues.

Political stability

According to Postero et al. (2018), Chile is one of the finest countries that supports the establishment of internal business in Latin America. The suitability is attributed to the aspect of democracy which has enacted various policies that will see Chile become a developed country. The democratic regime has also ensured there is political stability and this means that businesses have fewer political risks that should be considered in establishing operations (Macpherson et al.,

2021). The political landscape is also free from corruption and supports free trade as designated in international statutory laws.

Technological infrastructure

Chile has been at the epicentre of digitalising business operations to equate to the changing nature of the business environment. For instance, in 1992 the Chilean Economic Development Agency (CORFO) initiated the National Technology Fund. This fund is mandated to help business organisations major their operations on innovations to increase productivity (Griffith-Jones et al., 2018). This technological infrastructural advancement is a milestone for Tesco company considering that it wants to attract more customers to increase revenues.

Challenges

Stiff competition

Chile is one of the fastest developing countries in the world. As a result, the country has been attracting various firms to establish their operations. However, the greatest impediment that has been facing the Chilean market is its small size. The small size has continued to breed stiff competition among domestic and international businesses. The essence of competition means that customers have been having more power in terms of bargaining compared to the organisations and this minimises chances of accruing more revenues (BizLatin Hub, 2020).

Conservativeness and Cautiousness

Even though the government of Chile as well as the citizens have been open to converting business operations digitally, BizLatin Hub (2020) notes that there have been hesitations that have been causing delays in business operations. Conservativeness comes in the sense that most of the operations are still conforming to the aspect of paperwork and this requires the international business to be more patient while trying to establish their operations. Patience impedes the maximisation of the technological objective of fastening business operations.

Cultural differences

Cultural influences have a significant impact on business. It also has an influence on the marketing, sales, and distribution department. Employees' beliefs are influenced by their organizational culture.

Customer uncertainties

Even though Chile has been manifesting a stable political environment, there have been widespread uncertainties among customers regarding the changing market environment. Customers have been reluctant to spend their capital on some products due to some previous legislations such as tax rates which destabilised majority of the international business to continue with their operations (BizLatin Hub, 2020). Even though the Boric government has been carrying out many legislations including the procurement legislation, there is still a challenge to assure the customers about the certainty of the business operations.

How to Manage Aspects of Corporate Governance, Business Strategy, and Cultural Sensitivity when doing Business in Chile

Corporate governance is an important aspect that Tesco has to focus on in forming solid relationships with customers and other stakeholders in Chile. For instance, the company has to ensure there is transparency in its dealings. As Maroun (2019) opines, transparency means that Tesco will be open to external auditing of the decisions it makes. Additionally, transparency will negate the chances of customers feeling defrauded of their data or illegal moneymaking. Tesco has also to focus on ensuring there is accountability within the organisation. This means that every worker or employee has to be answerable for their actions. When there is accountability Tesco will be impacted in being trusted by the customers and this will build stronger customer loyalty (Maroun, 2019). Tesco should also consider taking care of the concerns raised by the customers. Through this aspect, the company will be enabled to build coherent relations with the customers and this will help in the management of cultural sensitivity as well as the business strategy.

Barriers Experienced by Foreign Businesses in Chile

Tax procedures

Even though business organisations normally enjoy low tax rates in operating in the Chilean market, the process of paying taxes is a bit complicated. For instance, as The World Bank (2021) points out, business organisations are required to pay a total of six taxes annually. The process of paying these taxes is more tedious in the sense that it can take more than 124 hours to complete. Additionally, the value-added tax also takes longer times to be finalised and this is a barrier that businesses have encountered in the process of internationalising in the Chilean markets.

Tedious Bureaucracies

According to the provisions of the World Bank and International Finance Corporation (IFC), Chile is one of the finest areas to establish business operations, particularly for international businesses. However, this advantage is normally hindered by the government's provisions of adhering to the bureaucratic processes before establishing business operations. For instance, the government requires international organisations to have a registration certificate, notarised articles of incorporation, a tax registration number as well a working license. The need for having these regulations is a good idea, however, the process of acquiring these needs tends to take longer and this discourages many organisations intending to operationalise their activities (The World Bank, 2021).

Lack of available Partnerships

The business environment of Chile is a bit complicated based on the aspect of finding a viable local partnership (Serviap Global, 2022). Based on the business strategy of Tesco of FDI and joint venture, these difficulties serve as impediments to the internalisation process. The lack of viable partnerships means that Tesco will be impacted negatively in the way it negates the challenge of language, cultural and regulatory barriers. The lack of negating the aforementioned barriers is effective in subjecting the organisations to the continued making of losses and thereafter leading to the collapse of operations.

The essence of having little or no partners means that organizations face difficulties in establishing the business since they are affected by factors such as language and cultural barriers as well as lack of conceptualizing the business environment.

Strategies and Relevant Recommendations

Tesco's internationalisation strategy has solely been based on collaboration with domestic partners in foreign countries. However, looking at the business environment of Chile there are other strategies that the company has to adopt and they include the following:

Joint venture: Even though partnering with domestic companies in Chile tends to be difficult, Tesco can decide to have a joint venture with existing international business organisations. This partnership can be negotiated to last for a given period. Through the joint venture, as Rugman (2019) asserts, Tesco will be helped in the minimisation of implementation costs as well as losses since there will be sharing of losses and profits as agreed before partnering. The joint venture will also be effective for Tesco in minimisation of other factors such as language barriers since the existing international business will have explored the Chilean market environment and understand the prospects and challenges of the market environment.

Foreign Direct Investment: Tesco should also consider acquiring a domestic organisation in Chile. The essence of acquiring an already existing business organization in Chile will help Tesco negate the challenges of implementations, language barriers, and also, tedious bureaucracies of establishing a new venture. Tesco will also be facilitated to utilise the existing labour and skills and this generally reduces expenses associated with hiring new employees (Rugman, 2019).

Recommendations

Market research: Many business organisations have failed to realise their objectives of internationalisation due to the failure to prioritise market research. Market research involves understanding the opportunities and challenges such as competition, and products especially if they are similar to what you need to internationalise as well as the perceptions and attitudes of

the customers. Tesco in this case has to utilise its technological prowess in carrying out market research and this will help in realising the targeted objectives.

Adoption of technology in the operationalisation of operations: The company has to adopt the use of digital marketing tools such as social media, email marketing, and SEO to enhance engagement with customers. The use of digital tools will also facilitate the company in analysing the needs of the customers and offering high-quality food products as well as negating competition.

Adoption of language translators: The greatest impediment to making organisations not realise their objectives is the aspect of neglecting language barriers which limit customers to interact with the products and services at ease. Tesco being an English company has to understand that majority of Chileans are Spanish speaking. As a result, there is a need to adopt mechanisms such as online translators to enable the customers not to be suspicious of the products being advertised.

Conclusion

Internationalisation of business operations is an effective element that contributes to a greater realisation of objectives especially the generation of revenues. With increased market competition in the UK due to its small market size, Tesco has to focus on establishing its operations in Chile to enhance its productivity. However, as the report has demonstrated, Tesco has to analyse the market environment of Chile, especially factors such as political, economic, or technological factors before establishing the operations. Nevertheless, with challenges that are embedded within the Chilean business environment, Tesco has to adopt the joint venture, or FDI as an effective strategy for establishing its operations in the Chilean market.

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