Adapting to Change

- Going to new countries is high risk but high reward
- Better planned is less likely to get into trouble

Why Trade?

- Really, want cheap imports
- Get from cheapest supplier
- Money goes further, living standards rise
- Eventually though, jobs and incomes are threatened
- Can control imports through tariffs and quotas

How Tariffs Work

- Levy tariffs to curb imports
- Usually done to protect domestic business
- If domestic substitute is good, demand will be elastic (which means….)
- E.g. Chinese Tyres

When Tariffs are Used

- Protect industries from foreign competition (EU Agricultural policy)
  - Businesses do well, living standards do not!
- Raise Tax Revenue
  - If inelastic demand for import, people will buy anyway
  - Tariffs mean extra taxes
- Can deter "dumping"
  - When exporter can sell product cheaper abroad
  "Dump" cheap imports – harm domestic producers
- Infant industry argument
  - If protect businesses when small, may become expert
  - Can then compete without protection

Why have MNCs grown?

- To access new markets
  - Extend PLC - saturated domestic market
- To reduce costs
  - EOS - Lower resources costs - cheaper labour
- To control resources
  - Arctic and Antarctic being eyed up now!
- Taking advantage of governments / avoiding trade barriers
  - Dell from Ireland to Poland (govt aid)
- Because they can
  - Trade Blocs - technology (travel and communications etc.)

MNCs Employment

- Starting operations overseas means FDI
- MNC will need to buy land and materials
- Creates local employment and income
- May employ local people (assuming they have skillz)
- May train local people
- Will use suppliers and services - creates more jobs
- Money (wages etc.) will be spent in local business
- "Regional Multiplier Effect" - 3 to 7 x as many jobs created indirectly as directly

MNCs Effect on Wages

- MNCs accused of paying "low wages"
- Must keep this in context of the particular country
- Studies show, MNCs generally pay "well above" the going rate
- US MNCs generally pay 40-100% above local wages
- Higher wages create bigger pool of workers, increased motivation, lowers workforce turnover

MNCs Skills and Technology Transfer

- FDI from MNCs brings technology
- Some of this will "rub off" to host country
- Local workers may be trained in using new technology
  - Transferred when they move jobs
- Can transfer skills through subsidiaries
- Also transfers through supply and competition
- BUT industrial espionage and copycat production is a risk

What are the gains of the stakeholder approach?

- Employees stick around (more people apply)
- Better relationships with community, suppliers etc.
- Better media coverage (less pressure groups)
- Problems:
  - Owners can insist on their way
    - PLCs – want short-term rewards
- Often difficult to please everyone (have to pick)
- People expect firms to watch suppliers etc.

CSR

- Going above and beyond legal requirements
- I.e. how it treats stakeholder groups
- Environment, employees, local community (big concerns)
- In 2010 Nestle started branding Kit Kat as fair-trade – *what about other brands?*

Are the stakeholder concept and CSR new?

- People expect a lot more now
- Companies can *really* be hurt by bad stories (Dasani, Primark, Nike)
- Leads more companies towards a stakeholder approach
- Started with paternalistic approach of companies like Cadburys

Can a firm satisfy all stakeholder groups?

- DOES go against shareholders wishes (most of the time)
- BUT maybe in the long-term it leads to more profits
  - Better rewards for employees leading to more productivity etc.
- Will often have to pick which ones to prioritise
- Stakeholders may be able to organise into pressure groups though…

Charles Handy's Person Cultures

- 4 ways of classifying business culture
- Can be used to analyse business culture in more depth

1. Power Cultures
2. Role Cultures
3. Task Cultures
4. Person Cultures

Ansoff's Matrix

- Developed by Igor Ansoff
- Way to indicate strategic direction
- He described strategy as: "a decision of medium – long-term significance that is made in conditions of 'partial ignorance'"
- You never know what the market will do in years to come
- Matrix is made to illustrate the risks in strategic decisions
- Risk becomes greater the more you move from core products

Market Penetration

- Concentrating on existing customers
- Increasing market share
- Common / safe strategy (obvious reasons)
- Tesco opening new stores in Britain is no longer a risk!
- MP opportunities arise by:
  - Appealing to new customers (Pink Nintendo DS + Nintendogs)
  - Taking customers from competitors (Samsung)
  - Persuading existing customers to increase usage (DLC)

Market Development

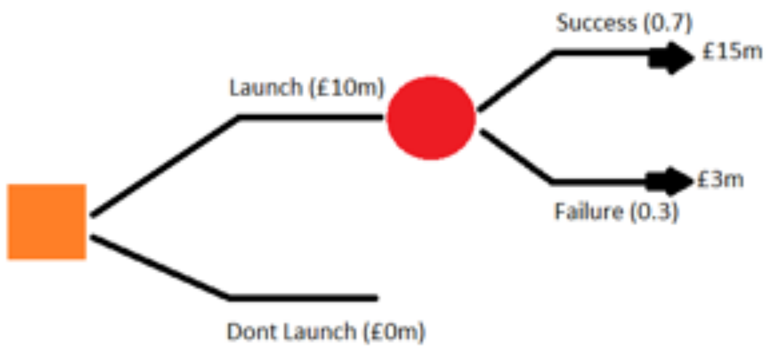
- Finding new markets for existing products
- E.g. Cadbury's selling in China (MUCH research)

  1. Repositioning the product: New market segment (Land Rover)
  2. Moving into new markets: Tesco (Fresh and Easy)

  - - Market research might not work – wrong Qs / interpretation etc.
  - - Sony budgeted for a 15year payback period when set up in UK

Decision Trees

- Allow us to visualise a decision
- Assign a probability to likely outcomes
- Use where sequences of events and uncertainty
- E.g. Product launch or buying new equipment
- Allows for uncertainty or chance



- Laid out left to right
- Square is decision to be made
- Circle is chance event (with probability - add up to 1)
- Can use it to make decisions

- Use for decisions - go left to right
- Decisions are squares - chances are circles
- Estimate probabilities for chances (Add up to 1)
- 2 monetary values represented:
  - (i) Cost of the decision (negative - in brackets)
  - (ii) Benefit (or cost) of a decision - at the end
- Calculate expected value at each circle
- Cross out each decision arm not made

Advantages

- Set out problems clearly - encourage a logical approach
- Encourage a quantitate approach (Assess chances of success and failure)
- Show average values *and* chances of success / failure
- Best when can look at similar things in past (to assess chances)
- Tactical rather than strategic decisions

Disadvantages

- Can be difficult to estimate probabilities
- Less useful for new or one-off strategic problems
- Can easily manipulate data to “prove” a result
- Does not account for variability of business environment
- Encourages ignorance of qualitative data

Network Analysis

- Shows to complete complex project in shortest amount of time
- “Critcial Path”: activities that MUST be completed on time
  - Or will delay project – can focus on these
- Ensure customer satisfaction AND save money
- Do it by minimising wasteful resources
- Network shows:
  - (i) Order in which tasks must be done
  - (ii) How long it should take
  - (iii) Earliest date at which later stages can start

Rules for Drawing Networks

- Must start and end on one “node”
- No lines must cross each other
- Only add the end node when you’ve checked the activity follows
- Must be no lines that are not activities
- Need to write figures into nodes (large circles, short lines)

The Critical Path

- The activities that take longest to complete
- In the example: B, D, F, I
- Delayed any of these by 1 day will delay the project
- Other tasks need less supervision (can also be delayed)
- Can move resources from non-critical to critical
- How to spot the critical path:
  - 1. Will be where EFT and LFT are the same
  - 2. Will be the longest route through these nodes

Why do we measure performance?

- (i) Is the workforce motivated?
- (ii) Is the workforce as productive as it can be?
- (iii) Are the HR policies of the business helping to meet goals?
- Can’t actually measure these things directly
- 2 main indicators we can use
  - 1. Labour productivity
  - 2. Labour turnover

Labour Productivity

- Compares number of workers and output
- Output per period / number of employees
- The higher the number, the better they’re working
  - So, if 10 people are employed and 150 windows cleaned?
- Also looking for increases here
- Higher productivity lowers labour costs and increases competitiveness

Labour Turnover

- How often people leave (and new join) the workforce
- (No. leaving per year / Average no.) x 100
  - So, if there are 50 people and 5 leave in a year?
- As always, no good just looking in isolation

Causes of Labour Turnover

- Internal Causes
  - Poor recruitment and selection process
    - Hiring the wrong people
  - Ineffective motivation / leadership
  - People lacking commitment (look outside for opportunities)
  - Wage levels lower than rivals
- External Causes
  - More local vacancies arising
  - Better transport links