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INTERNATIONAL BUSINESS

Study guide

Ministry of Education and Science of Ukraine
Sumy State University

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Study guide is developed in accordance with the program of the discipline "International Business". It systematizes domestic and foreign experience in a particular area of research, formed the basic concepts of international business, theories and mechanisms of activity, methods of analysis of companies in the international space.

Book is designed for students of higher educational institutions studying in the field of "International Economic Relations", other economic specialties, entrepreneurs.

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CONTENT

FOREWORD

The globalized world necessitates understanding and analyzing the functioning processes of economic entities on an international scale. Global value chains, value distribution, economic upgrades of companies, and strengthening positions of economic entities in various sectors are phenomena whose comprehension and analysis ensure a high level of competencies among specialists in international economic relations.

International business has reached its peak development in the conditions of globalization, absence of informational barriers, and enhancement of logistic and transportation approaches. It enables companies to maintain high levels of productivity growth, sales volume, and profitability. To achieve planned results, international companies formulate strategies for market penetration in different countries.

An essential condition for the advancement of international companies and their products or services is the development of communication policies that consider the cultural and lifestyle peculiarities of the countries in which the company operates.

The assessment of international business efficiency occurs both at the company level and at the level of its subdivisions (across countries, functional departments, etc.), depending on the organizational structure.

The textbook consists of 9 chapters, each containing theoretical and practical parts. The theoretical part encompasses the main provisions within the proposed topics. The practical part consists of topic-related questions, test and calculation tasks, and case studies.

The first chapter discusses the basic concepts of international business.

The second chapter is dedicated to regional peculiarities of international business, namely the specifics of European, American, and Asian businesses.

The third chapter examines the concepts and elements of corporate strategy, groups of benchmark development strategies for international business.

The fourth chapter addresses issues of technological policy in international corporations, including models for selecting the placement system of scientific research and design works of corporations.

The fifth chapter provides approaches to assessing the effectiveness of international companies' activities and a set of indicators to analyze a company's performance.

In the sixth chapter, topics such as the essence of business models in international business, their classification, and approaches to developing business models are discussed.

The seventh chapter is dedicated to the issues of forming the organizational culture of international corporations.

In the eighth chapter, the concepts and types of business communications, the cultural specifics of business communications, and the notion of intercultural communicative competence are examined.

The ninth chapter addresses the characteristics of transport corridors in international business are detailed, and international transport operations are examined as an object of logistics management.

The publication was carried out as part of the research topic "Economic Basics of Technology Diffusion into the National Economy of Ukraine Considering Best International Practices”(registration number).

Sections 1-6, 9: PhD in Economic Sciences, S.V.Tarasenko.

Sections 7-8: Professor, Doctor oa Economic Sciences, Y.M. Petrushenko.

1. INTERNATIONAL BUSINESS: DEFINITIONS

1.1. Main Concepts

International business is any economic operations performed between two or more countries. Such relations can be established among private and state companies. Performing foreign trade operations differs from domestic ones significantly. Forms of foreign trade operations depend on the company's foreign environment.

An international company is an organization that functions according to business contracts concluded with individuals, private firms and/or foreign state enterprises.

The term of *transnational companies* stands for companies that take an active part in international business.

A transnational corporation is an enterprise that has access to the international market and deploys its facilities abroad. Such a company uses all available international business forms.

Apart from owning foreign assets and controlling them, transnational corporations usually buy resources and produce goods or services in many countries (the latter is sold to customers in different countries).

Why should a company perform foreign trade operations and spread its activity in other states? International cooperation increases business profits. Company's costs may decrease via buying raw materials and accessories abroad. Besides, economic cycles may contrast in different countries. Therefore, access to other markets allows the company's diversifying sale and supply sources.

International business is a combination of interacting national businesses. The latter is owned and controlled by national capital; they are co-created by economic entities of separate countries. The foreign business is owned and managed by foreign capital. Foreign and national capitals form the mixed business.

International business can be regarded as:

– a business or foreign joint venture (in a narrow sense);

– a combination of businesses founded beyond national borders and international economic interactions of different countries' enterprises (broadly).

The contrast between international and domestic businesses consists in:

1) Various currencies that may be used in several states practising international business. Thus, at least one currency has to be converted.

2) Possible difference in countries' legislations. Therefore, one country has to match its actions with local laws. There is a great contrast in countries' legislations. While former colonies keep the conventional British common law, most Western Europe states engage the Roman civil one. Iran and Saudi Arabia involve religious law.

3) Difference in countries' culture. This provides some particular local companies' strategies.

4) Resource availability (limit, shortage or excess). That defines the enterprises' product amount and price.

The product manufacture ways and types can vary within peculiar states.

According to R. Robinson, the main stages of international business development are:

– the commerce era;
– the expansion era;
– the concession era;
– the independent countries' era;
– the globalisation era.

During the commerce era (1500-1850), colonial trade is spawned in European states. Merchants profit from the foreign sale. Business service is revealed (investment and finance infrastructure).

The expansion era (1850-1914) is characterized by a raw material increase in developed states. As a foreign business form, colony plantation enterprises are spread. Role of colony control rises. Finance infrastructure develops. Foreign subsidiaries are founded. Sale markets are broadened. New usage potential of financial resource excess is considered.

Within the concession era (1914-1945), concessionaires are transformed into separate states to perform economic, educational, medical and other functions for workers or the population. National identity rises. Middle managers are singled out among the population. Labour migration flows are formed.

In the independent countries' era (1950-1960), international business globalization begins. The companies' industrial and financial processes are informatised and computerized. The global capital market develops.

For the globalization era (since 1970), innovations increasingly influence social, economic and political processes. Telecommunications are permanently spread. Countries highly depend on international business.

Today, international business is the economic basis. It determines states' development and economic growth.

1.2. International Business Forms

Launching an international business, the company selects its business operation form:

– export, import;
– franchise;
– licence;
– direct investment;
– indirect investment;
– management contracting.

Minimal commitments and risks characterize the first company's international operations. Cooperation with intermediate sellers (working for commissions) avoids hiring a skilled staff for foreign deals. When the enterprise has a particular sale experience in the foreign market, it can proceed to product or service export.

Export is selling a home country's product to reuse or resell it within other states.

Import is buying a foreign country's product to reuse or resell it within a home state.

There are two groups of import and export operations:

– goods sale;
– service sale.

One distinguishes between direct and indirect export.

The direct export is done by:

– local company departments;
– commercial travellers;
– trade missions;
– subsidiaries;
– distributors and agents.

The indirect export is done by:

– intermediate sellers (exporter, trading company);

– agents (export commission shops, foreign representative, broker, export management company, company's export agent).

For the last decade, strategic alliances (as an international business cooperation form) are pretty popular. It means that independent participant companies conclude cooperation contracts within certain activities – e.g., implementing a joint acquisition of new sale markets, goods promotion, and competitiveness increase.

If foreign assets are used (patents, copyright, trademarks etc.), the company pays royalties. Having succeeded in product export, the company may apply franchise and sell another enterprise rights to use its trademark. Franchise assists in performing deals as well as providing semi-finished products, accessories, technologies and management services.

To get peculiar resources or enter sale markets, the company can make direct investments (property acquisition for profit).

Foreign direct investment is investing capital in acquiring property or assets in other countries. The source country is the one where the company's headquarters is located. The host country (or the business dealing country) is the one that adopts investments.

Indirect investment is acquiring foreign financial assets (shares, bonds and deposit certificates). Assets are not going to be controlled.

A joint venture is a dealing way when several companies can attract direct investments into one company. As a rule, within direct investments, the abroad manufactured product sale is dominant over the domestic product export.

Within indirect investments (shares, bonds etc.), there is no control over investment object activities. They are applied for solving financial issues.

Other international business forms are licence, franchise and management contracting.

Licence is concluding a contract for the intellectual property use of a country's company to pay royalties by another state's one.

A franchise is a licence type that lets a company use another one's manufacturing technologies, brand or logo in exchange for royalties.

Management contracting is an agreement on managing a company's facilities for paying a fee to another state's enterprise.

Multinational corporations' activities in the host country affect its economy, policy and culture. In most cases, these changes are positive. For example, foreign direct investments create new possibilities to employ the labour force and increase local workers' efficiency. However, the transnational company's activities may negatively affect the host country's economy if its competitiveness with local enterprises leads to profit and labour decrease. Moreover, the multinational company may also bring the host state to the appearance of goods or customs incompatible with the country's culture.

The technological environment is one of the main aspects of doing international business. The country's natural resources and human and financial asset investments influence the state's attractiveness as a territory for making international deals. Readiness or reluctance to keep the foreign companies' intellectual property rights is usually one of the main criteria for making decisions of place selection for global operations.

International companies practising foreign business constantly trace political situation in countries where they make deals. Key information sources about such changes are the company or embassy's staff and enterprises that estimate political risks.

There are two ways of a company's internationalization: the external and internal ones. The former means that the company spreads its activity by applying the foreign partners' competitive advantages in markets. By the external way, the international company establishes its subsidiaries or purchases foreign entities.

The company's internationalization is conducted in such stages:

– the initial stage;

– the local market expansion stage;

– the transnational stage.

Specific tasks and senior management orientation characterize each stage.

In the initial stage, foreign deals are subordinate to activity tasks in the domestic market. On the local market expansion stage, material and financial flows take place in regional subsidiaries. On the transnational stage, the headquarters and subsidiaries co-work to develop standards and procedures corresponding to general and local company's tasks.

Possibilities of enterprise's access to foreign markets depend on factors systematized in different models.

According to the internalization theory (P. Buckley, M. Casson, R. Coase), the entity enters the foreign market to apply the scale economy, technology and management know-how, government and market restrictions. Simultaneously, the primary motive for the multinational company's increase is transaction cost minimization. The company's competitive advantage forms via know-how internalization.

J. Dunning argues that the company's access to foreign markets depends on the OLI advantages (ownership, location, internalization).

1) The ownership advantages:

– the exclusive ones (ownership of limited natural resources, patents or trademarks);

– the technological ones;

– the company's size ones (scale effect).

2) The location advantages:

– the economic ones (manufacture factors, transport charges, infrastructure, market size etc.);

– the political ones (laws for foreign investments, taxes);

– the social ones (culture contrast, attitude to foreigners).

3) The internalization advantages (benefits from standard management of assets situated in different countries).

The Y. Stein decision matrix within the company's internationalization is represented in table 1.1.

Table 1.1 – The Y. Stein decision matrix within company's internationalization (the OLI advantages and internationalization)

Advantages	Internationalization strategies		
	Licence sale	Export	Foreign direct investments
O	X	X	X
L	O	X	X
I	O	O	X

The Y. Stein decision matrix let us understand why and where investment flows are aimed in the international space.

<u>Topical questions</u>

1. What is international business? How does it differ from the domestic one?
2. Why is it so crucial for modern students to study international business?
3. Enumerate the primary international business forms.
4. What is typical for the first company's international operations?
5. What is the difference between goods and service export/import?
6. What is an indirect investment?
7. What advantages does a franchise have for international activities?
8. Define the management contracting essence.
9. Determine the key licence advantages as an international business form.
10. What internationalization theories are singled out?

Test

Answer «Yes» or «No»

1. Amount of possible product customers significantly rises when the enterprise enters the international market.

A) yes;

B) no.

2. Diversification is a concentration of adjacent manufacturing stages within a single company.

A) yes;

B) no.

3. Integration is a concentration of manufacturing different industry products within a single firm.

A) yes;

B) no.

4. According to the internalization theory, the primary motive for the multinational company's increase is transaction cost minimization.

A) yes;

B) no.

5. Usually, the first company's international operations are characterized by minimal commitments and risks for its resources.

A) yes;

B) no.

6. The M-form entity consists of parallel subordination of all manufacture stages to different production centres.

A) yes;

B) no.

7. Import is selling a home country's product to reuse or resell it within other states.

A) yes;

B) no.

8. Export buys a foreign country's product to reuse or resell it within a home state.

A) yes;

B) no.

9. Transaction costs are incredibly high compared to control ones when there are possibilities and stimuli for opportunistic behaviour.

A) yes;

B) no.

10. Market is a network of external contacts.
A) yes;
B) no.

Answers: 1) A; 2) B); 3) B; 4) A; 5) A; 6) B; 7) B; 8) B; 9) A; 10) A.

Choose correct answers

1. Merchants profit from foreign sale and business service is revealed – that is typical for:
A) the commerce era;
B) the globalisation era;
C) the concession era;
D) the independent countries' era.

2. Colonial trade is spawned in European states during:
A) the commerce era;
B) the globalisation era;
C) the concession era;
D) the independent countries' era.

3. The second stage of international business development is:
A) the expansion era;
B) the commerce era;
C) the concession era;
D) the globalisation era.

4. Labour migration flows amd its market internationalization belong to:
A) the concession era;
B) the globalisation era;
C) the expansion era;
D) the independent countries' era.

5. Among international business types, there is no:
A) export;
B) licence;
C) franchise;
D) fundraising.

6. The direct influence factors for external company's environment comprise:

A) customers, suppliers, political factors;

B) unions, suppliers, competitors;

C) laws and authorities, suppliers, political factors;

D) laws and authorities, suppliers, international events.

7. The indirect influence factors for an external company's environment comprise:

A) customers, suppliers, political factors;

B) unions, suppliers, competitors;

C) international events, unions, political factors;

D) laws and authorities, social and cultural factors, international events.

8. The factors for internal company's environment comprise:

A) customers, suppliers, political factors;

B) unions, suppliers, competitors;

C) international events, economic state, political factors.

D) technology, structure, human capital.

9. The third stage of international business development is:

A) the commerce era;

B) the concession era;

C) the expansion era;

D) the independent countries' era.

10. Role of the state colony control rises within:

A) the commerce era;

B) the globalisation era;

C) the expansion era;

D) the independent countries' era.

11. Among international business types, there is no:

A) export;

B) licence;

C) franchise;

D) customized project part.

12. The fifth stage of international business development is:

A) the commerce era;

B) the globalisation era;

C) the concession era;
D) the independent countries' era.

13. Globalization increase is not caused by:
A) transnational companies with rising influence;
B) travels and supplies (cheap and safe);
C) commercial tariff rise and international trade restrictions;
D) simple migration.

14. The fourth stage of international business development is:
A) the commerce era;
B) the expansion era;
C) the independent countries' era;
D) the concession era.

15. Raw material increase in developed states and colony plantation enterprises are typical for:
A) the commerce era;
B) the globalisation era;
C) the expansion era;
D) the independent countries' era.

16 World economy is a dynamic system of interconnected national economies and relations between respective entities. It is based on:
A) the international labour division and some economic reproduction stages;
B) the international labour division and all economic reproduction stages;
C) the international competitive advantage theory and some economic reproduction stages;
D) the development theory and all economic reproduction stages.

17. Among the critical international business features, there are no:
A) various currencies;
B) different legislations;
C) various cultures;
D) organisational structures.

18. The technology innovation influence increase for economic, social and political changes is typical for:
A) the globalisation era;

B) the concession era;
C) the expansion era;
D) the independent countries' era.

19. Globalization is a shift to create:
A) a more integrated and more interdependent world economy;
B) a less integrated and more interdependent world economy;
C) a more integrated and less interdependent world economy;
D) a less integrated and less interdependent world economy.

20. Cheap resource usage is observed within:
A) the commerce era;
B) the globalisation era;
C) the expansion era;
D) the independent countries' era.

Answers: 1) A; 2) A; 3) A; 4) A; 5) D; 6) B; 7) D; 8) D; 9) B; 10) C; 11) D; 12) B; 13) C; 14) C; 15) C; 16) B; 17) D; 18) A; 19) A; 20) C.

Chapter Summary

1. International business encompasses economic operations conducted between two or more countries involving private and state entities. Transnational corporations play a significant role in this realm, deploying facilities abroad and engaging in various international business forms.

2. The motivations for companies to engage in international trade include increased profits, access to diverse markets, and cost reduction through sourcing materials globally. Differentiating between international and domestic business, several factors such as currency conversion, legal disparities, cultural differences, and resource availability come into play.

3. The development of international business has traversed various eras, including the commerce era, expansion era, concession era, independent countries' era, and globalization era, each marked by distinct characteristics and milestones.

4. Different forms of international business operations are available to companies, including export, import, franchise, license, direct investment, indirect investment, and management contracting. Strategic alliances have become increasingly popular for international cooperation, allowing companies to collaborate for mutual benefits.

5. Multinational corporations exert influence on host countries' economies, policies, and cultures, which can have both positive and negative ramifications. The technological environment, political stability, and internalization strategies are crucial considerations for companies engaging in international business.

6. The company's internationalization process typically involves stages such as initial entry, local market expansion, and transnational integration, with specific tasks and management orientations at each stage.

7. Theoretical frameworks like the internalization theory and OLI advantages (ownership, location, internalization) help understand the company's decisions regarding internationalization strategies. The Y. Stein decision matrix provides insight into why and where investment flows are directed in the international space.

Key Terms

Foreign direct investment - investing capital in acquiring property or assets in other countries.

Franchise - a licence type that lets a company use another one's manufacturing technologies, brand or logo in exchange for royalties.

Export - selling a home country's product to reuse or resell it within other states.

Import - buying a foreign country's product to reuse or resell it within a home state.

Indirect investment - acquiring foreign financial assets (shares, bonds and deposit certificates).

International business - economic operations conducted between two or more countries involving private and state entities.

International company - an organization that functions according to business contracts concluded with individuals, private firms and/or foreign state enterprises.

Joint venture - a dealing way when several companies can attract direct investments into one company.

Licence - concluding a contract for the intellectual property use of a country's company to pay royalties by another state's one.

Management contracting - an agreement on managing a company's facilities for paying a fee to another state's enterprise.

OLI advantages - ownership, location, internalization advantages that determine a company's access to foreign markets, as proposed by John Dunning.

Strategic alliance - collaborative agreements between independent companies to pursue mutual benefits, such as accessing new markets or increasing competitiveness.

Transnational corporation - an enterprise that has access to the international market and deploys its facilities abroad. Such a company uses all available international business forms.

Y. Stein decision matrix - a framework used to understand internationalization strategies based on OLI advantages, determining whether a company should engage in license sales, export, or foreign direct investments.

2. EUROPEAN, AMERICAN AND ASIAN BUSINESSES

2.1. The European Business Structure

World regions differ in their peculiarities of arranging and doing business.

The European business structure is characterised by:

1) its aim at the European Union home market;

2) national and transnational policy management;

3) a specific culture of doing the European business;

4) different internationalisation levels for European companies: both a single product delivery to foreign markets and a developed transnational companies' structure (within many countries and markets);

5) its global scale: the European business comprises the worldwide information business exchange, financial and technological innovation markets;

6) the European company's state supports the transnational level (e.g. lobbying for sale market distribution); however, the company itself may not have any preferences within the country's borders.

The European business forms develop via such factors:

– the company's international experience;

– the manufacture complexity level;

– the business internationalisation level;

– the company's working place in the country.

Tax legislations regulate European business activities.

The European tax law is a system of tax norms. It is stipulated by:

– the national laws of EU member countries (e.g. the German Fiscal Code, the German Added-Value Tax Act, the German Act on Corporations' Income Taxation);

– the common ("supranational") EU laws – some acts of EU institutions (the Treaty on the European Union, the Treaty on Functioning of the European Union, the Council Directive 2006/112/EC on the Added-Value Tax Common System, the Council Directive 92/83/EEC on Harmonization of Excise Duty Structures on Alcohol and Alcoholic Beverages).

Acts of different European institutions regulate the European business: the European Council (defines aims of common policies), the European Commission (amends draft resolutions), the Economic and Social Committee and the Committee of the Regions (make their conclusion as to draft resolutions), the European Parliament and the Council of Ministers (adopt resolutions), the EU Court of Justice and Court of Auditors (control resolution legality).

The European Council appeared in 1974. It consists of EU countries' heads and the European Council president. The European Council determines common policy and economic goals of the EU development, settles some structural development problems.

The European Commission is the EU executive authority. It comprises 20 representatives that are elected for five years with the consent of member countries' governments. The Commission implements international treaties on the EU development via generating acts (directives and instructions) and controlling them further. It also monitors the EU member countries' fulfilling treaties and provides secondary legislation.

The European Commission manages the EU budget and its special funds: the European Regional Development Fund, the European Development Fund, scientific and technical development programmes, etc.

The Economic and Social Committee provides consulting functions in the EU. It assesses and includes the interests of different EU economic and social groups when common policies are created. Representatives of these groups are divided into:

a) group 1 – representatives of industries, banks, financial institutions, transport operators' federations etc.;

b) group 2 – employees, trade union representatives;

c) group 3 – agriculture, craft, small and medium business representatives, customers' associations and other organisations.

The Committee of the Regions advises on local issues of employment, legislation, social problems, environment, education, occupational training, culture, health care etc.

The European Parliament checks the European Commission activities, adopts the EU budget and laws. It performs four functions: the legislative, political, supervisory and budgetary ones. The budgetary function is implemented as arranging the EU budget costs.

The EU Council of Ministers consists of member countries' ministers who discuss, adopt or abolish some EU acts. It also includes 16 unique boards (e.g. agriculture, economy and finance boards).

The Court of Justice secures keeping the law in treaties, acts and resolutions of the EU Council, Parliament or Commission.

The Court of Auditors exercises external supervision over the EU budget, checks accounts of administrative costs and incomes, and performs the EU financial management functions.

The European Investment Bank's main task is to engage resources in the loan capital market to fund some EU investment projects.

The EU carries out common policies. Their goal is sorting out social, economic or political issues.

The economy is performed via some horizontal common and sectoral policies (the latter are industrial, business, transport, fishing or other ones).

Horizontal common policies are policies whose measures are shared by all EU economy sectors (regional development, competition, taxation and other ones).

Horizontal and sectoral policies are supported by EU external policies (sale, aid and development, foreign affair ones).

Common policies are arranged within the general social and economic policy using special programmes and projects (aimed at increasing the European economy competitiveness).

Tax types in the EU countries:

a) direct taxes – they are paid by a person who gets profits or owns immovable properties (the enterprise profit tax, the immovable property tax);

b) indirect taxes – they are paid by a person who consumes goods or services (the added-value tax; the tobacco, alcohol or power excise taxes).

The profit tax is the main taxation burden of the EU international business. Its value within the Eurozone is:

– 21.31% (the EU average rate);

– 19.68% (the Europe average rate);

– 35% (Malta), 33.99% (Belgium), 33.33% (France) are the highest EU rates;

– 12.5% (Cyprus, Ireland), 15% (Latvia) are the lowest EU rates.

In different EU countries, the profit tax has its peculiarities. In Germany, this tax comprises:

– the profit tax (15%);

– the solidarity tax (5.5% of the profit tax);

– the sale tax (3.5% within the whole country; its coefficient of up to 4.8 varies in different administrative units).

The added-value tax is arranged as to the EU general rules. Its basis is the product or service added-value cost on all stages of the manufacturing process. Final customers pay this tax.

Peculiarities of the added-value tax rates:

– the ordinary rate must be at least 15%;

– the discounted rates must be over 5%;
– the under 5% rate is used for some individual goods and services;
– the 12% special rate is used for some products and services;
– there are separate territories with no added-value tax (table 2.1):

Table 2.1 – The EU territories where no added-value tax is paid

The EU member country	Territories
Germany	Heligoland, Büsingen am Hochrhein
Spain	Ceuta, Melilla, the Canary Islands
France	Guadeloupe, Guiana, Martinique, Réunion
Italy	Livigno, Campione d'Italia, Lake Lugano
Greece	Mount Athos
Austria	Jungholz, Mittelberg
Denmark	Greenland, the Faroe Islands
Finland	The Åland Islands
The United Kingdom	The Channel Islands, Gibraltar

The discounted added-value tax rates concern:
– food;
– water;
– medicines and medical equipment;
– books, periodicals and educational materials;
– agriculture products or services;
– charity.

2.2. Industrial Policy as a European Business Development Driver

In the 21st century, industrial activities remain a driving force of the country's efficient economic development. The industrial policy is focused on enterprises' manufacture.

Three main models of the industrial policy are singled out:

1) the classical (vertical) model. Japan engaged it in the 1950s-1960s.

2) the neoclassical (horizontal) model. It means that the country's government influences resource distribution to a certain extent.

3) the system model. It is also called the Scandinavian policy based on the cluster approach.

The classical policy creates critically essential industries. The neoclassical policy generates and implements effective market institutions. The system policy forms innovative clusters.

The most efficient industrial policy model combines the general horizontal approach and its vertical projection onto specific sectors or territories. Via scenario planning and foresight methods, priority ways of area development are defined.

Among priorities of the EU advanced manufacture technologies, one can discern new production processes; adaptive and smart manufacture systems; digital, virtual and resource-saving production; mobile cooperating enterprises (network and dynamic manufacture); human-centric and demand-oriented production.

The EU industrial policy cluster approach assesses the final effect of structural change, reduces bureaucratic inter-departmental tension, decreases excess centralisation. While the first-generation clusters used the "scale effect" and horizontal integration, the innovative modern clusters are based on the inter-industry involvement of new technologies. For example, they unite the textile industry with non-woven fabrics or the aircraft industry with microelectronics and ultramodern construction materials.

Possible EU clusters are defined in such stages: strategical informing (extended foresight), reasonable approach to analysed phenomena, determining priorities and their realisation (framework).

The first and second stages involve representatives of different target groups for information analysis (data are received from many sources), considering reports on the EU countries' strategic development.

The third and fourth stages differ in such features. On the one hand, foresight implies the engagement of certain persons who make decisions. On the other hand, foresight uses some formal methods and constantly searches for new ways of increasing foresight openness.

The foresight method is aimed at defining development directions rather than peculiar technologies themselves.

2.3. The Asian and American Business Structures

The USA is one of the countries that possess the best conditions for business development. It is caused by a good entrepreneurship infrastructure and high population purchasing power.

The USA business organisation peculiarities are:

– tough competition;

– the customer-is-always-right principle, high customers' servicing;

– partners' relations;

– outsourcing;

– lobbying groups in different business spheres.

The USA business organisation forms are:

– sole proprietorships;

– partnerships;

– C-type and S-type corporations;

– limited liability companies;

– foreign corporations and foreign corporation representatives;

– joint ventures.

Corporations decrease taxes via "profit moving". Simultaneously, the limited liability companies' tax adaptation is better than that of other USA business forms.

The Asian business arrangement process comprises such stages:

1) Searching for key market players: either only state structures (China, India) or state and private structures (Japan).

2) Studying legislation. For example, work in China requires finding a local partner (he registers your company and acquires a business licence).

3) Examining a document package (regardless of partners). Asian mediators are not lobbyists (unlike the USA ones).

4) Defining a peculiar company's working pattern.

Asian structures are characterised by hierarchical corporate space.

The Asian business peculiarities are:

a) high cost for moving Chinese financial resources to other countries (up to 40% of the cost).

b) moderate taxation – 34.2% (Europe – 40.3%; North America – 39.0%; South America – 52.3%; Africa – 47.1%).

c) the integrative growth strategies are used by companies in Chinese markets (since this state is closed with broad market features).

d) the complex marketing conditions in Japan and South Korea. Here, international companies' sale is tightly connected with cultural peculiarities among the population. For example, Japanese brands are quite often promoted by bloggers. However, Japanese bloggers work only via advertising agencies (unlike in Europe or the USA). Therefore, they cannot be offered for partnership in messengers.

Koreans practise the "national heritage cult". In South Korea, no Google or Facebook services are used (instead, local analogues are engaged). Here, the most popular search engine is Naver. Its name is not translated into English, which complicates online promotion for foreign companies.

The Korean IT market is highly developed. Among industrial giants, one can distinguish the Samsung, LG, Kakao, Naver, SKT and KT companies. Initially, the Kakao conglomerate was a messaging software producer. Today, the company has developed the Kakao Friends featured characters, the Daum Internet portal, the MelOn music streaming service, its own AI platform (like Google Home), the taxi and online bank services.

e) The Indian and Indonesian markets are characterised by high development as well. However, its business culture, negotiations significantly differ from the European and USA styles. Here, that may be an obstacle to doing business.

In the Asian market, it is necessary to involve integrative or concentrated growth strategies for international companies' development. That has to include a proper localisation and readiness to invest in marketing.

Topical questions

1. Why are there differences in organising and doing business within several world regions?
2. Enumerate the main peculiarities of the European business organisation.
3. What role do legislative acts perform within European business activities?
4. Describe the EU business taxation peculiarities.
5. What influences doing the Asian business?
6. What business organisation forms are used in the USA?
7. Why does high competition characterise the USA market?
8. What is it challenging to develop Japanese and South Korean marketing?
9. What role does the state perform in organising the Asian business?
10. Explain the concept and peculiarities of conducting national industrial policies.
11. Describe the experience of conducting industrial policies in different countries.

12. Explicate industrial policy models.
13. Discuss cluster technologies within industrial development.
14. Explain the foresight idea.
15. Enumerate main state measures in supporting industrial development.

Test

Answer «Yes» or «No»

1. The economic policy is implemented via some horizontal common and sectoral policies.
A) yes;
B) no.
2. The branch structure of developed, developing and non-developed countries' economies is the same.
A) yes;
B) no.
3. The classical industrial policy creates critically essential industries.
A) yes;
B) no.
4. Common policies are arranged within the general social and economic policy using special programmes and projects.
A) yes;
B) no.
5. The foresight peculiarity is defining development directions, an inter-industry approach and multi-variant scenarios rather than determining certain technologies.
A) yes;
B) no.
6. In the Asian market, it is necessary to involve integrative or concentrated growth strategies for international companies' development.
A) yes;
B) no.
7. The limited liability companies' tax adaptation is better than that of other USA business forms.
A) yes;
B) no.

8. The state role in organising and doing Asian business is not significant.

A) yes;

B) no.

9. The Philippine economy is larger than the Dutch one.

A) yes;

B) no.

10. Asian companies are characterised by hierarchical corporate space.

A) yes;

B) no.

Answers: 1) A; 2) B; 3) A; 4) A; 5) B; 6) A; 7) A; 8) B; 9) A; 10) A.

Choose correct answers

1. According to the EU common rules, the ordinary added-value tax rate must be at least:

A) 10%;

B) 15% ;

C) 18%;

D) 20%.

2. The EU territories with no added-value tax comprise:

A) Cyprus;

B) Crete;

C) Palermo;

D) the Canary Islands.

3. The EU territories with no added-value tax comprise:

A) Cyprus;

B) Crete;

C) Palermo;

D) Greenland.

4. The EU products with the discounted added-value tax rate are:

A) books, periodicals, educational materials;

B) cosmetics;

C) alcohol;

D) tobacco.

5. The German sale tax is equal to:
A) 2%;
B) 2.5%;
C) 3%;
D) 3.5%.

6. The German solidarity tax is equal to:
A) 5.5% of the profit tax;
B) 5.5% of the profit;
C) 5.5% of the pure profit;
D) 5.5% of the added-value tax.

7. The classical industrial policy is based on:
A) creating critically important industries;
B) establishing a critical mass of efficient market institutions;
C) generating a critical mass of innovative clusters;
D) all points mentioned above.

8. There are three industrial policy models:
A) classical, vertical, horizontal;
B) classical, neoclassical, horizontal;
C) classical, neoclassical, vertical;
D) classical, horizontal, system.

9. The system industry policy is based on:
A) creating critically important industries;
B) establishing a critical mass of efficient market institutions;
C) generating a critical mass of innovative clusters;
D) all points mentioned above.

10. The horizontal industrial policy model is aimed at:
A) high state intervention;
B) low state intervention;
C) high and low state intervention;
D) no state intervention.

11. Neoclassical industrial policy is based on:
A) creating critically important industries;
B) establishing a critical mass of efficient market institutions;
C) generating a critical mass of innovative clusters;
D) all points mentioned above.

12. How many corporation types are distinguished in the USA?
A) 2;
B) 3;
C) 4;
D) 5.

13. How many people can found S-type corporations in the USA?
A) 50;
B) 65;
C) 75;
D) 85.

14. The EU products and services with the discounted added-value tax rate are:
A) water;
B) machines;
C) IT services;
D) tourism services.

15. Within the world engineering industry, leaders are:
A) the European Union;
B) China and African countries;
C) the USA and Canada;
D) the USA and South American countries.

Answers: 1) B; 2) D; 3) D; 4) A; 5) D; 6) A; 7) A; 8) D; 9) C; 10) C; 11) B; 12) A; 13) C; 14) A; 15) A.

Cases

1. Digital Hubs

Some hub companies (like Alibaba, Amazon, Apple, Google, Baidu, Facebook or Microsoft) get an increasingly considerable part of it, creating customers' value.

Apart from dominating in different markets, hub companies generate and control essential links in the economy networks. The Android operating system (owned by Google) and related technologies provoke "tight competitive places". The hub firms have access to billions of mobile customers, which would be a great desire for other product or service providers.

The Google company not only obtains profits for performing operations but also influences data flow and collection. The Amazon and Alibaba market platforms unite a considerable amount of customers with many retailers and manufacturers. The more users join these networks, the more attractive it is for business people to offer them products and services.

Hub firms do not compete traditionally in the market (e.g., increasing product quality or decreasing its price). They involve some network-based assets. Having succeeded in a specific branch, these assets are introduced into another branch to rearrange its competitive structure (i.e. to transform a product-defined branch into a network-defined one). Hub organisations directly related branches to the very competitive tight places that they already control.

For example, Ant Financial (as an Alibaba subsidiary) does not offer the best paying services (a credit card or investment managing). It also simplifies conventional financial services and rearranges a significant part of the Chinese market around the Ant Financial platform.

Economic power concentrates over hubs. The cause for their appearance consists of three principles of transition to digital space and the network theory. The first principle is the Moore law: computer performance doubles every two years. Thus, the performance increase promotes further development and replacement of human activities by digital tools.

The second principle concerns connection and interaction. Most modern devices have in-built connection possibilities for their proper interaction. According to the Metcalfe law, the telecommunication network value rises by a simultaneous increase in connected users (the network effect). In other words, digital technologies lead to a significant economic value. In particular, open network links let recombine the business supply (e.g. transition from paying tools to broader financial services and insurance). Making profits gets more concentrated and asymmetrical; it is explained by the fact that network traffic induces the same traffic. Besides, the more intensive use of some connections causes additional investments. Finally, their importance rises.

The third principle. Constructing new digital networks leads to positive feedback. Since increasingly more economical operations are executed via digital networks, the hub economic power rises for customers, companies and industries. As soon as the hub increases links in one economic sector, its dominance provokes spawning ties with another one. In its turn, that concentrates more markets. Players competing in traditionally separate industries are sifted out. Only several hub companies remain who obtain more added value (i.e. the digital domino effect).

Thus, in 2000-2010, mobile phone manufacturers competed for market leadership without any noticeable network effects. The competition resulted in innovations and business model appearance that provides profitability for a dozen of leading competitors.

However, the iOS and Android introduction brought the industry transition from technocentrism to network structures (based on the aforementioned platforms). The platforms connect smartphones to many new applications and services. Each of them raises the value platform, makes a significant network effect and higher barriers for new players. Today, the Motorola, Nokia, BlackBerry, or Palm companies have left the sale market because of mobile applications. In contrast, the Google and Apple enterprises earn the central profit part within the sector. The profit of associated service providers is insignificant.

The domino effect works in other economic sectors as well.

Case questions:

1. Why do hub companies change the market and economy sector functioning?
2. How does the network effect influence companies' activities?
3. What does the domino effect consist of?

2. Interaction of Company's Special Teams and Key Departments

Special teams (responsible for innovative decisions) inevitably confront the rest of the company's organisational structure. Ordinary employees often regard innovators as improper workers. Simultaneously, employees are treated by innovators as bureaucratic monsters.

Separating these groups can be pretty standard. However, almost all innovations are generated via the current company's resources and know-how. Isolating the innovation group, the corporation deprives it of advantages before smaller and smarter competitors. The best thing to do in such a case is to establish a partnership between the particular team and the company's ordinary workers. Such partnerships proved to be an essential condition of launching new offers in the Westlaw, Lucent Technologies and WD – 40 enterprises.

Successful partnership in searching for and implementing innovations comprises three stages.

Firstly, one should define current accomplishable tasks for employees.

Secondly, an effective special team should be created to complete another searching for and implementing innovations. Therefore, experts should be introduced who possess a new vision of the industry.

Thirdly, possible conflicts between special teams and other organisation's participants have to be foreseen and avoided. At this stage, an innovation leader and senior manager are essential. The former cooperates with ordinary workers appropriately. The latter supports the special team, defines long-term company's priorities and determines resource distribution between competing departments.

Case questions:

1. Why is there confrontation between special teams and the company's departments?
2. What stages are singled out in search of and realisation of the company's innovative decisions?
3. Why do experts not advise to separate special teams from ordinary workers?

3. Organisational Policy and Culture

In 2005, the Videojet Technologies Inc company started an internal initiative. It required co-operation between the printer designing and sale groups. The company's leaders engaged the DBS managing processes. Previously, they were involved only in product manufacturing and two groups' negotiating for problem solution. However, meetings of designers and sellers (efficient via the stable production improvement policy) became official events.

For example, before the product was released, a seller had given his anxious view on printer technical aspects, leading to the product market failure. The DBS processes were introduced to assist teams in defining and solving the very problem. In facilities, employees were allowed to stop current manufacturing lines for sorting out product quality issues. Nevertheless, the requirement was regarded as a boycott attempt and subsequently ignored. The printer was released, but it failed in the market. Therefore, sellers were right about the stated problem.

The company paid attention to the failed product manufacture. It continued using the DBS tools while a constant interaction between designers and sellers was established as well. Only in two years since the fail mentioned above, the Videojet printer succeeded in the market.

Case questions:

1. Using the Videojet company as an example, explain the fundamental problem: management is based on mutual understanding between the company's workers.

2. How was it possible to reach mutual understanding in the Videojet company?

3. How was it possible to promote Videojet management?

4. Strict or Mild Management?

Companies try using methods applicable to all other projects in innovative projects: planning, budgeting, reporting. However, it is indeterminacy that is the main feature of innovative activities. Therefore, there are possible departures from planning and budgeting.

In 2000, the engineering and aerospace Allied Signal company started designing web applications and services via general management methods – strategical planning and budgeting. The most profitable ideas were submitted to consideration for each quarterly meeting. Innovative projects were analysed in the same way as any current ones, while budgets did not include additional resources to develop new products. New project managers were estimated by reallocating and sparing resources. Innovative activities transformed into idea improvement.

In the 1990s, the Bank of Boston company founded an innovative department for serving the poor urban population. Within a new trend of potentially more significant investments, the department managers based their work upon no using conventional efficiency indexes (operation time, customer's profit). However, senior managers argued for unprofitable trend closure. Department managers defined their efficiency index (customer's loyalty and satisfaction, new subsidiary creation etc.). It let report on the achieved efficiency of this trend work and development.

Case questions:

1. Why is it dangerous for innovative projects to estimate results as to ordinary activity indexes?

2. What problems may appear within innovative projects when one has involved methods or indexes of ordinary company's projects?

3. What does the innovative project peculiarity consist in?

5. New Subsidiaries and the Parent Company: Co-Existence Principles

It is pretty tricky for a new subsidiary to follow the parent company's rules. In the case of creating new facilities, the peaceful co-existence policy is applied. However, even giant companies may fail within the interaction of trial subsidiaries and parent units.

A typical mistake was made by the General Motors (GM) company when its Saturn car subsidiary was allowed not to follow the parent rules. The Saturn team was provided with an entire creativity space in designing, manufacturing, marketing (since the GM enterprise would introduce the best Saturn ideas). Nevertheless, after a successful start, the subsidiary merged with the parent, and the innovative decisions remained unrealised. Meanwhile, the Toyota enterprise succeeded in implementing all proposed improvements (technological, management ones) and outstripped the GM competitor to popularity and sale indexes.

The parent company's bureaucratic processes contain innovations. An internal conflict is formed by the collision of the different subsidiary and parent's corporate cultures.

Even if a new subsidiary is launched within the current business, a collision of corporate cultures occurs between lazy and hard-working employees. Innovators as researchers are regarded as future creators. They are not supposed to follow the rules, raise profits or realise ideas. In contrast, their colleagues must follow those things.

In the 2000 beginning, the Arrow Electronic company (an American industrial equipment producer) tried initiating its Arrow.com website. The Internet group was selected from new young employees who differed in education and welfare. The company spent money buying new fashionable furniture and kitchen set (the website worked round the clock). The "former sale department" colleagues started conflicting because of contrast in office equipment and future Internet sale losses. The resistance was strong, which resulted in the company's building division: a brick wall separated two departments. The struggle between departments tarnished the firm's reputation. A particular unit was created within the company to settle the problem.

Case questions:
1. Why is it typical that the parent and subsidiary companies confront?
2. What conflicts may spawn between parent and subsidiary employees?
3. How is it reasonable to arrange parent and subsidiary interaction?

Chapter Summary

1. The chapter explores various business structures and industrial policies across different regions, focusing on Europe, Asia, and America.

2. European business features:

- characterized by its focus on the European Union home market and various internationalization levels;
- influenced by national and transnational policy management and a specific culture of doing business.
- European companies benefit from global scale operations, including participation in worldwide information exchange, financial markets, and technological innovations$
- tax legislations within the EU are regulated by national laws of member countries and supranational EU laws.
- European institutions such as the European Council, European Commission, and European Parliament play vital roles in regulating and governing European business activities.

3. Industrial EU policy focuses on efficient economic development through enterprise manufacturing. Different models of industrial policy include the classical (vertical), neoclassical (horizontal), and system models. A combination of horizontal and vertical approaches is considered the most efficient, along with the use of scenario planning and foresight methods.

EU industrial policy emphasizes advanced manufacturing technologies and innovative cluster approaches to foster economic growth and competitiveness.

4. The USA offers favorable conditions for business development, characterized by tough competition, customer-centric principles, and various business organization forms.

Asian business structures involve hierarchical corporate spaces and specific market entry processes influenced by legislation and cultural norms.

The Asian market presents challenges and opportunities for international companies, requiring integrative growth strategies and localized approaches to marketing and business operations.

Key Terms

Direct taxes – taxes that paid by a person who gets profits or owns immovable properties (the enterprise profit tax, the immovable property tax).

Indirect taxes – taxes that paid by a person who consumes goods or services (the added-value tax; the tobacco, alcohol or power excise taxes).

Foresight methods - planning and forecasting techniques used to anticipate future trends and developments, guiding decision-making in industrial policy and business strategy.

Hierarchical corporate space - a characteristic feature of Asian business structures involving clear hierarchies and organizational structures within companies.

Horizontal common policies - policies whose measures are shared by all EU economy sectors (regional development, competition, taxation and other ones).

Horizontal model of industrial policy - a modern approach to industrial policy emphasizing market institutions and resource distribution across various sectors.

Localization - adapting products, services, and business operations to suit the preferences, culture, and regulations of local markets.

System model of industrial policy - an approach that involves a cluster-based approach to industrial policy, fostering innovation and collaboration among industries.

Vertical model of industrial policy - a traditional approach to industrial policy focused on creating critical industries and vertical integration within specific sectors.

3. INTERNATIONAL BUSINESS DEVELOPMENT STRATEGIES

3.1. Reference Strategy Groups in International Business Development

Companies can succeed in their business goals by implementing particular strategies.

Reference strategies are the most widely-spread and practice-proved approaches to business development.

There are four approaches to company development. They differ in changing some of the elements: product, market, industry, enterprise position within the industry, technologies (manufacturability). Each element can be in one of two states: the current or new ones.

1. The first reference strategy group comprises *concentrated growth strategies*. They include product and/or market change. If this strategy is applied, the company tries to improve product quality or manufacture new ones without industry alternations. Besides, the enterprise seeks to promote its position in the current market or move to the new one.

Types of the concentrated growth strategies:

a) *The market position enhancement strategy*. The company plans some activities to achieve better positions with the existing market products. Implementing this strategy requires significant marketing efforts. Secondly, "horizontal integration" is essential (when there are a company's attempts to control its competitors).

b) *The market development strategy*. New markets are searched for existing products.

c) *The product development strategy*. The company develops via manufacturing new products. This strategy is reasonable to be used in that market where the enterprise has been working.

2. The second reference strategy group includes business strategies for company extension through adding new units. They are called *integrative growth strategies*. One uses them if the company's business process operation is stable, but no concentrated growth strategies can be applied. The integrative growth is implemented via both purchasing property and expanding the company from the inside. As a result, the company upgrades

within the industry.

Types of the integrative growth strategies:

a) *The backward vertical integration strategy*. The enterprise improves via new property acquisition, increased suppliers' control or new supplying subsidiary creation. The company benefits from this strategy: there may be a decrease in dependence on hardware price fluctuations and suppliers' requests. Employing that, supplies (as a company's cost) can evolve into income.

b) *The forward vertical integration strategy*. The enterprise improves via new property acquisition and increased control over structures between the company and final customers (i.e. over distribution and retail). The company benefits form this strategy if there are more resellers or no qualitative ones.

3. The third reference strategy group lists *the diversification growth strategies*. They are implemented if the company cannot develop any further in the market (with a particular product and a specific industry). These strategies comprise:

a) *The concentric diversification strategy*. It is based on searching for and using additional possibilities (that are present in the current business) to manufacture new products. The ongoing manufacture remains while new products are created through the possibilities existing in the developed market, the applied technologies and other advantages in the company's work (e.g. a wheat farmer produces pasta).

b) *The horizontal diversification strategy*. That is aimed at growth possibilities in the current market via new products, which requires new technologies. When this strategy is used, the enterprise has to manufacture products that are technologically not connected with previous ones. Since the new product has to be directed at the customer of the main one, its quality should match that of the latter. An essential condition in this strategy success is the pre-estimation of the company's new product manufacturing abilities.

c) *The conglomerate diversification strategy*. The enterprise expands via manufacturing new products that are technologically not connected with previous ones. Simultaneously, new products are sold in new markets. The strategy success depends on many factors (staff competence, market seasonality, financial resource availability etc.) and needs a powerful organisation potential.

4. The fourth reference strategy group includes *the retrenchment strategies*. They are applied when the company's work should be rearranged after a continuous growth or efficiency increase (especially if an economy falls or its radical changes happen – e.g. a structural reconstruction). In such

cases, the enterprise engages some intentional and planned retrenchment strategies.

There are four types of intentional retrenchment strategies:

a) *The liquidation strategy*. That is used if the company cannot secure business operation anymore.

b) *The harvesting strategy*. It is the aspiration to a maximum short-term income (rather than to a long-term one). The strategy is used for an unpromising business that cannot be profitably sold but provides "the harvest income". It also reduces costs for raw materials, hardware and labour force. Besides, a maximum income is gained when products are sold out, and the manufacturing process itself decreases.

c) *The divestment strategy*. The company folds or sells one of its facilities or businesses. This strategy is applied if more promising manufacturers should be supported or need to start completely new production processes (that correspond to the enterprise's long-term goals).

d) *The cost reduction strategy*. The company seeks possibilities of planning and implementing cost reduction. It is reached by some temporary or short-term measures, production cost decrease, labour efficiency increase, staff reduction.

The enterprise can engage several strategies simultaneously or in a particular succession (the combined strategy).

3.2. Corporate Strategy

Corporate strategy is the leading company strategy aimed at creating conditions and methods of added value generation. It implies approaches to the most effective use of current resources. Meanwhile, this strategy is characterised by a sufficient uniqueness level, and it is not easy to be imitated.

The corporate strategy defines the general direction of a company's activities. It is determined by executive managers and includes three main tasks:

a) selecting the key corporate activity direction as well as that of its strategic business units (SBUs);

b) establishing particular roles for each SBU and its departments in the corporate strategy implementation;

c) defining the resource (investment) size and its distribution among SBUs and other departments.

The corporate strategy determines a particular combination and scale of activity types: business portfolios, markets, business development ideas.

In multibusiness companies with various manufactured products, a five-level strategy is used. It comprises corporate, business unit, competitive, functional and operational strategies.

In monobusiness companies with homotypic manufactured products, the corporate strategy is simultaneously the competitive one. Here, a four-level strategy is applied.

A business line or a business unit strategy is created and developed if the company has separate independent businesses and autonomous or semiautonomous SBUs.

The business unit is a company's department with a complete economic activity cycle (marketing, manufacture and sale). Business units define all manufacture, price, sale and staff strategies independently. However, they cannot independently perform such functions:

– changing manufacture or industry types;

– selling facilities and technologies;

– crediting above company's limits (e.g. over 10% of total asset value);

– discharging any business unit managers.

Competitive strategies are subordinate to the corporate strategy and indicate ways of reaching a selected direction in each business unit. It is a plan to form some long-term competitive positions.

Functional strategies realise business unit strategies and those of the company (manufacture or marketing strategies etc.). They specify business strategies in the tasks of separate company's departments.

Operational strategies comprise approaches and methods of implementing functional strategies within the company's departments. When any operational strategy is implemented, the company selects control and risk levels that correlate with its priorities (rapid growth, control or risks, slow growth).

The correlation between risks and costs in managing an international company is shown in figure 3.1. In the risk strategy, the international company performs expanded manufacture via new investments and production rise (i.e. production expenses are used). In the control strategy, there is an increase in manufacturing management costs (i.e. non-production expenses are applied).

When the international company develops, it selects either to build its manufacturing components or buy them from suppliers. Own component manufacture protects the company's technology and arranges terms of completing closly related stages in value generation order (vertical integration).

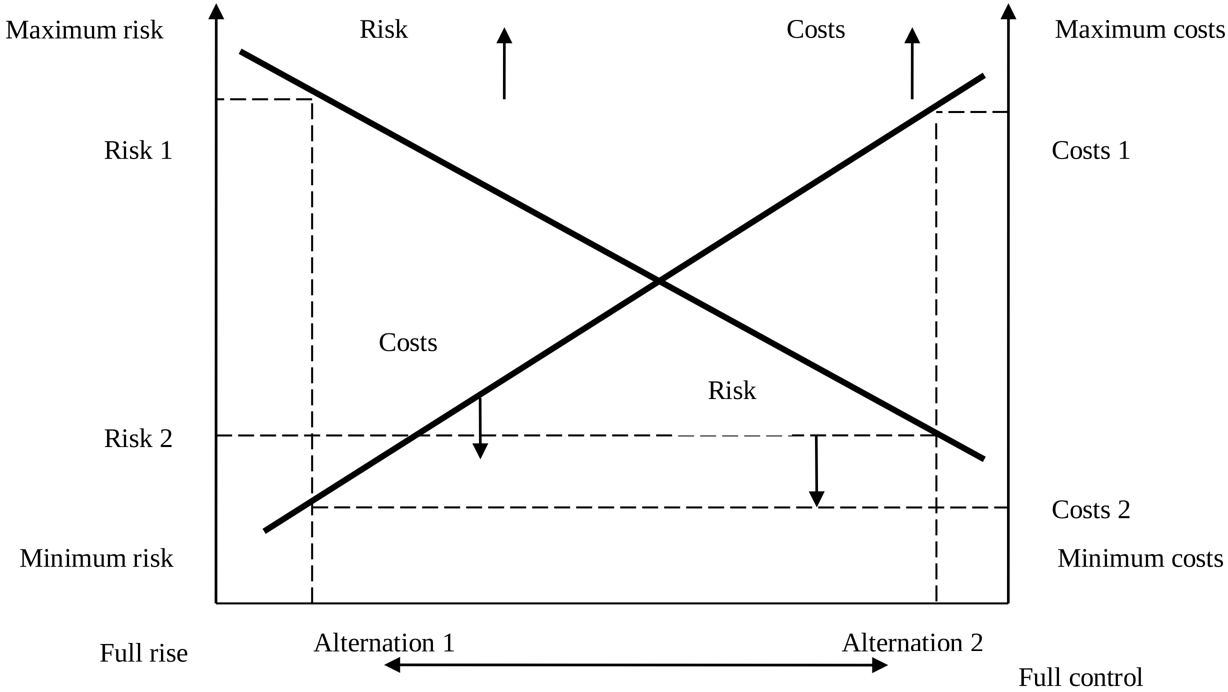

Figure 3.1. Correlation between risks and costs in managing an international company

Buying components from suppliers promotes the enterprise's strategic flexibility and assists in avoiding organisational problems (associated with the vast vertical integration). Outsourcing can also be applied as a part of compensation policies. They aim to get more company's orders in a foreign country via bringing there some manufacture activities based on the contract agreement.

An international company's important decision is selecting a place for manufacturing processes. The enterprise location strategies imply either manufacture concentration or its decentralisation.

Selecting a company location depends on:

a) The geographical factors. They include manufacturing costs, political situation, national culture, place externalities.

b) The technological factors. They comprise the following things:

– the constant costs (an enterprise in a single location is reasonable with high investments – e.g. a semiconductor chip production is possible when over 1 billion USA dollars are invested);

– the minimum production efficient scale (the manufacturing volume for a significant increase in all-company savings: the higher the minimum production efficient scale is against the global demand, the more sensible it is to concentrate manufacture processes in a single place);

– the technology flexibility (time reduction for rearranging facilities, increased machinery use through better work schedules, quality control promotion on all production stages).

c) The goods factors. They presuppose:

– the correlation between goods value and their weight (medicines or electronic circuits are expensive but light; therefore, they may be manufactured in one location and exported);

– the goods ability to satisfy everyday needs (if there are all-purpose goods, their production may be concentrated in the optimal location).

Thus, one marks out quite a large amount of the international business development strategies. While rapid changes and technological innovations occur, these strategies change or adapt more quickly as well.

Topical questions

1. What types of reference strategies exist today?
2. Explain the concentrated growth strategies.
3. What kinds of integrative growth strategies are distinguished?
4. Describe the diversification growth strategies.
5. Define the business retrenchment strategies.
6. What task is the corporate strategy aimed at?

7. What corporate strategy levels are distinguished?

8. What role do the functional strategies perform within the company's activities?

9. Explain peculiarities of the company's risk and control strategies.

10. What factors define a company's location?

Test

Answer «Yes» or «No»

1. The international company's integrative growth is realised only via purchasing the property.

A) yes;

B) no.

2. The corporate strategy determines a particular combination and scale of activity types: business portfolios, markets, business development ideas.

A) yes;

B) no.

3. The market development strategy is when new markets are searched for existing products.

A) yes;

B) no.

4. In multi-business companies, a five-level strategy is used.

A) yes;

B) no.

5. Companies cannot implement several strategies simultaneously.

A) yes;

B) no.

6. The company's activity optimisation within market conditions does not require searching for current information.

A) yes;

B) no.

7. The geographical factors include manufacturing costs, political situation and national culture.

A) yes;

B) no.

8. The retrenchment strategies are applied when the company's work should be rearranged after continuous growth.

A) yes;

B) no.

9. Manufacture costs as an economical category are not a criterion for the company's operating activity efficiency.

A) yes;

B) no.

10. In the risk strategy, the international company performs expanded manufacture via new investments and production rise.

A) yes;

B) no.

Answers: 1) B; 2) A; 3) A; 4) A; 5) B; 6) B; 7) A; 8) A; 9) B; 10) A.

Choose correct answers

1. Reference strategies are connected with change of:

A) product, market, industry;

B) product, market, industry, state regulation;

C) industry, enterprise position within the industry;

D) product, market, industry, enterprise position within the industry, technologies.

2. The market development strategy consists in:

A) search for new markets for current products;

B) search for new markets for new products;

C) growth via manufacturing a new product;

D) new property acquisition, increased suppliers' control.

3. The product development strategy implies:

A) growth via new markets;

B) growth via manufacturing a new product;

C) new property acquisition or increased suppliers' control;

D) company's work rearrangement after continuous growth.

4. The horizontal diversification strategy is based on:

A) searching for and using additional possibilities to manufacture new products;

B) searching for growth possibilities in the current market via new products, which requires new technologies;

C) expanding via manufacturing new products that are technologically not connected with previous ones.

5. The concentric diversification strategy is based on:

A) searching for and using additional possibilities to manufacture new products;

B) searching for growth possibilities in the current market via new products, which requires new technologies;

C) expanding via manufacturing new products that are technologically not connected with previous ones.

6. The concentrated growth strategies are connected with change of:

A) product, market, industry;

B) product, market;

C) product;

D) market.

7. The backward vertical integration strategy is aimed at:

A) growth via increased suppliers' control;

B) increased control over distribution and retail;

C) search for growth possibilities in the current market via new products;

D) aspiration to a maximum short-term income.

8. How many strategy levels exist in multibusiness companies?

A) 3;

B) 4;

C) 5;

D) 6.

9. What strategy comprises approaches and methods of implementing functional strategies within company's departments?

A) the operational strategy;

B) the functional strategy;

C) the competitive strategy;

D) the business unit strategy.

10. The technological factors defining a company's location include:

A) national culture;

B) place externalities;

C) constant costs;

D) goods value.

Answers: 1) D; 2) A; 3) B; 4) B; 5) A; 6) B; 7) A; 8) C; 9) A); 10) C.

Cases

1. The Patagonia Company

The Patagonia company is an ecogiant sports outfit manufacturer that was established over 50 years ago.

The enterprise reflected the Californian dissident culture of the 1960s when there was the alpinists and surfers' cult and the radical ecologism ethics. Its president (Yvon Chouinard) devoted his life to "cheerful childishness", surfing and mountaineering. This approach is practised by the company's workers as well. The aspiration to fun reveals an unshakable belief that the corporation must both provide incomes and social changes. The Patagonia activities unfolded in the 1970s when alpinist outfit designers appealed to mountaineers for declining pythons (hooks and spikes that crack rocks to make reliable support).

The Patagonia company is known for its mobile clothes repairing tours. The Worn Wear shops are equipped with Juki sewing machines. They repair any clothes.

Another initiative in waste reduction and new customers' attraction is creating an online store. For no dumping, the repaired outfits are resold on the Internet. Besides, the Patagonia enterprise issues loans to organisations that can also resell goods. Within a new policy, customers may bring used clothes to Patagonia local retail stores.

The Patagonia company manufactures hemp that is further applied in outfit production. The enterprise's philosophy is to provide its customers and industry with benefits. Therefore, new technologies and models are designed to save the environment.

1% of trade turnover or 10% of the profit are transferred to environment funds. Totally since its establishment, the Patagonia enterprise spent 50 million dollars on nature protection.

The Patagonia coldproof fluff is obtained via the Traceable Down method (no birds are fattened and plucked alive). Since 2014, only that fluff is bought whose origin is checked.

The organisation offers its employees to participate in the Environment Training Course Programme. Everybody can complete an ecological project in two months (simultaneously, wages are paid, and all benefits remain). Within these activities, trees are planted, wild seeds are collected, ecological seminars are arranged etc.

Today, the company produces jackets from recycled plastic bottles or some other clothes from organic cotton only. Non-violent activism courses are taught to employees. The Patagonia strategy is based on supporting the environment and advancing an idea of a stable, responsible business.

Case questions:

1. What strategy is implemented by the Patagonia company?
2. What tools are used by the Patagonia company to implement its strategy?
3. How does the Patagonia company achieve financial stability?

2. The General Electric Revival

For the last ten years, there has been a constant deterioration in the General Electric (GE) corporation. In 2018, the GE shares fell by 44%. On 26 April 2018, they were excluded from the Dow Jones Industrial Average Index (previously, the company had possessed it since its establishment).

On 21 May 2018, the GE enterprise announced its merging with the Wabtec one (the latter specialises in manufacturing railway hardware and software). As a union result, the GE party acquired 50.1% of shares in the new corporation. In February 2019, the GE unit already reported on its significant efficiency.

In 2018, the most profitable GE industry became aviation. Receipts increased by 21%, up to 8.5 billion dollars. Profit was 1.7 billion dollars (i.e. by 24% higher than the same period of the previous year). The total aviation profit is more than the sum of all other GE facilities. There was a tremendous demand for GE aircraft engines from the Boeing and Airbus companies.

It is the aviation and power industries that comprise the main GE activities. Previously, power facilities brought the highest GE receipts. Now, the situation is quite the other way round. A decision to rearrange the power business was made to solve the problem. The holding company planned to divide the GE Power unit into two new ones: a united gas business and steam, nuclear, or other power work department. To increase sale and decrease debts, GE is going to sell the Baker Hughes oil enterprise share.

Besides, a new digital company is being established to manufacture the Industrial Internet of Things software.

Case questions:

1. What caused the GE deterioration for the last ten years?
2. Why did aviation become the most profitable industry in the whole company?

3. What strategy does the GE enterprise apply to recover its power business?

3. The Lavazza Aggression

Two lean years led to Luigi Lavazza's poverty. As an Italian peasant, he borrowed 50 liras for moving to Turin. There he worked as a grocery seller in the morning. In the night, he made some chemical tests in the store laboratory.

In 1910, Luigi started coffee production. While only one South American coffee variety was sold at that time, Luigi offered his coffee as a mix of several varieties. In such a way, the Lavazza enterprise became a giant Italian and global coffee corporation. Luigi was skilled at mixing, which brought a vital customers' love for his products.

For the Lavazza founder, coffee only complemented grocery sale. However, his sons made their efforts to promote the coffee trade. Thus, they created some coffee brand packages. Later, the Lavazza company moved to the international market. Today, coffee is present in 90 markets.

In the 1970s, there were poor Brasilian coffee harvests, which hardly led to the Lavazza bankruptcy. The company could recover only in six years.

Nowadays, the Lavazza enterprise is an aggressor merging European coffee businesses. According to Luigi's great-grandson, one should both work in the coffee industry and influence it. This Lavazza approach is traced in purchasing the Carte Noire and Merrild businesses (the former is 20% of the French market, the latter is the most significant coffee brand in Denmark and Baltic countries).

The Lavazza is going to buy other enterprises (in Europe, the USA, Canada). For example, the Lavazza coffee has been already delivered to the British easy coffee stores.

Meanwhile, the Starbucks coffee company has entered the Italian market, which could cause competition. However, the Lavazza sale policy does not match the Starbucks one: the latter is not aimed at coffee retail. Such a conclusion was made when the Lavazza once failed in retailing.

Within the Eurozone recession, the Lavazza coffee is directed to international markets. That is going to be achieved via purchasing small coffee businesses and consolidating assets. The goal is to create an independent global coffee group that can compete on the international level.

Case questions:

1. What are the main strategy elements of the Lavazza company?
2. What advantages does this strategy have?

3. How can this strategy be improved in future?

4. The Advancing Amazon Company

Brave plans and swift development secure the 22-year Amazon leadership in goods delivery and other spheres. The enterprise unfolds new activities and improves its service. They are created and tested (via applications etc.). Different Amazon platforms are aimed at providing the best services as quickly as possible.

The company supplies unusual products to satisfy the highest customers' needs. That is a strong motivation in the Amazon policy. The enterprise strategy implies a stable development, experiments in related industries and franchising. Today, the Amazon book site generates a virtual showcase and sells any goods.

The Amazon platform supports Airbnb and Netflix work and e-book storage. It also assists in the Alexa performance (e.g., you can decide whether you need an umbrella).

The Amazon business focuses on two key questions: whether the company satisfies the customers' demand and if goods can be delivered properly.

Physical stores are going to be opened as well: visitors will be able to interact with digital platforms in a completely different way. Queuing and cash-paying are avoided by the Amazon cloud calculations, machine training, voice control and logistic know-how.

Amazon uses robots and drones in its warehouses. The advancing idea and constant progress secure Amazon dominance among its competitors.

Case questions:

1. Define the Amazon policies or principles that may be a reference model for any company.
2. What is the main company's strategy idea?
3. What competitive advantages does the Amazon company have?

5. The Sturbaks Museum in Milan

In 2018, Italy (as a country of deep coffee traditions) reveals an event: the first Starbucks café was opened in Milan. There, coffee and cocktails are visually produced and sold.

The Starbucks company was previously considered to conquer all European countries (rather than Italy itself with a long coffee history). However, such a USA organisation did appear in Milan. The first Italian

Starbucks was located in a luxurious old house in the city centre (Cordusio Square).

The huge café space is divided into two zones: a guest one and a coffee-producing one. Here, you can observe coffee roasting, cooling and packaging.

However, such a Starbucks establishment is instead a museum than a café itself.

You need to queue six times on two floors to order coffee, sweets, alcohol, and salted dishes. Alcohol is sold only on the first floor (in the VIP zone) if it has been reserved. Another cup of coffee requires queuing again. Getting outside with order is quite challenging: the exit doors are too massive. Although there are enough employees in the café, many of them do not assist in serving visitors.

Some blocks from the Starbucks, the small roasting Lavazza is situated. Serving is the same, but the latter is more comfortable. Therefore, most Milan residents regard Starbucks as a museum and the Lavazza as a café itself.

Case questions:

1. Is the Starbucks café popular in Italy?
2. What are the disadvantages of Starbucks work?
3. What measures should be taken to eliminate the Starbucks disadvantages?

6. Scale Effect Increase

Scale effect decreases contain competitive advantages of most industries. Usually, customers' increase makes the value creation curve flatter. The enterprise does not obtain any significant advantage via customers' increase over a specific efficiency level, which causes competitors' co-existence.

Digital technologies promote the scale effect increase. For example, a local advertising platform raises efficiency when there is a customers' increase. Meanwhile, there is a rise in directing ads to customers. Besides, there is higher importance of personalised ads. Thus, the larger customers' platform value raises the number of available applications while the designers' programme value rises by customers' increase.

The profit traditional decrease economy conditioned co-existence of many competing companies. It also secured differential prices to attract customers. However, higher digital asset profits (e.g. advertising platforms) raise the competitor's advantage with the most significant scale and the most excellent customers' network. That leads to cost concentration over one or two companies within the industry. With the scale effect increase, digital technologies can promote advancing particular industries.

Case questions:
1. Explain how the scale effect decrease influences industries.
2. How does the scale effect increase influence industries?
3. Why is the scale effect increase caused by digital technologies?

Summary Chapter

1. Companies can achieve success in their business objectives by implementing specific strategies. Reference strategies are widely used and proven approaches to business development. There are four approaches to company development, each involving changes in elements such as product, market, industry, enterprise position within the industry, and technologies. These elements can be in either a current or new state.

2. The first reference strategy group consists of concentrated growth strategies, which involve changes in product and/or market. This includes improving product quality or introducing new products without altering the industry. Strategies within this group include:

a) market position enhancement strategy, focusing on improving market positions with existing products and engaging in horizontal integration;

b) market development strategy, seeking new markets for existing products;

c) Product development strategy, manufacturing new products in existing markets.

3. The second reference strategy group includes integrative growth strategies, utilized when business processes are stable but concentrated growth strategies cannot be applied. These strategies involve expanding through the acquisition of new units, either backward or forward vertically:

a) backward vertical integration strategy, improving through new property acquisition or increased control over suppliers;

b) forward vertical integration strategy, enhancing control over distribution and retail channels.

4. The third reference strategy group encompasses diversification growth strategies, implemented when further development in the current market is limited. Strategies within this group include:

a) concentric diversification strategy, leveraging existing business capabilities to manufacture new products;

b) horizontal diversification strategy, introducing new products requiring new technologies;

c) conglomerate diversification strategy, expanding into new products and markets simultaneously.

5. The fourth reference strategy group includes retrenchment strategies, applied when restructuring is necessary after continuous growth or significant changes in the economy. Types of intentional retrenchment strategies include:

a) liquidation strategy, used when business operations cannot be sustained

b) harvesting strategy, aiming for short-term income from unpromising businesses;

c) divestment strategy, selling facilities or businesses to support more promising ventures. d) Cost reduction strategy, seeking temporary measures to reduce costs.

6. Corporate strategy is the primary strategy aimed at creating conditions and methods for generating added value. It defines the general direction of a company's activities and involves three main tasks: selecting key corporate activity directions, defining roles for strategic business units (SBUs), and allocating resources among SBUs and other departments. Corporate strategy determines the combination and scale of activity types, including business portfolios, markets, and business development ideas.

7. In multibusiness companies, a five-level strategy is used, comprising corporate, business unit, competitive, functional, and operational strategies. In monobusiness companies, corporate strategy is also competitive strategy, resulting in a four-level strategy. Business unit strategies are developed for separate independent businesses, each with its own economic activity cycle. Competitive strategies aim to establish long-term competitive positions, while functional strategies specify tasks for company departments. Operational strategies implement functional strategies within company departments, considering priorities such as rapid growth, control, or risk management.

8. The decision-making process in managing an international company involves assessing risks and costs, with strategies determined by factors such as geographical, technological, and goods considerations. These strategies may involve manufacturing concentration or decentralization, depending on factors like production costs, political situation, technology flexibility, and product characteristics.

Key Terms

Backward vertical integration strategy **-** an integrative growth strategy where the enterprise improves via new property acquisition, increased suppliers' control, or new supplying subsidiary creation.

Business unit **-** a company's department with a complete economic activity cycle (marketing, manufacture and sale).

Competitive strategy **-** a strategy subordinate to the corporate strategy and indicate ways of reaching a selected direction in each business unit. It is a plan to form some long-term competitive positions.

Concentrated growth strategy – a strategy aimed at improving product quality or introducing new products without altering the industry, focusing on product and/or market change.

Concentric diversification strategy **-** a diversification growth strategy based on searching for and using additional possibilities in the current business to manufacture new products while retaining ongoing manufacture.

Conglomerate diversification strategy **-** a diversification growth strategy where the enterprise expands via manufacturing new products that are technologically not connected with previous ones, often sold in new markets.

Corporate strategy **-** a leading company strategy aimed at creating conditions and methods of added value generation.

Cost reduction strategy **-** a retrenchment strategy involving planning and implementing cost reduction through temporary or short-term measures, production cost decrease, labor efficiency increase, or staff reduction.

Diversification growth strategy **-** a strategy implemented when the company cannot develop further in the market with a particular product and industry.

Divestment strategy **-** a retrenchment strategy where the company folds or sells one of its facilities or businesses, often to support more promising manufacturers or start new production processes.

Forward vertical integration strategy **-** an integrative growth strategy where the enterprise improves via new property acquisition and increased control over structures between the company and final customers, such as distribution and retail.

Functional strategy **-** a strategy that realise business unit strategies and those of the company (manufacture or marketing strategies etc.).

Harvesting strategy **-** a retrenchment strategy aiming for maximum short-term income, often reducing costs and maximizing income by selling products and decreasing the manufacturing process.

Horizontal diversification strategy - a diversification growth strategy aimed at growth possibilities in the current market via new products requiring new technologies.

Integrative growth strategy – a strategy for company extension through adding new units, implemented when business process operation is stable but concentrated growth strategies cannot be applied.

Liquidation strategy - a retrenchment strategy used if the company cannot secure business operation anymore.

Market development strategy - a concentrated growth strategy focused on searching for new markets for existing products.

Market position enhancement strategy - a concentrated growth strategy involving activities to achieve better positions with existing market products, often requiring significant marketing efforts and horizontal integration.

Operational strategy - a comprise approaches and methods of implementing functional strategies within the company's departments.

Product development strategy - a concentrated growth strategy involving the manufacturing of new products, often used in markets where the enterprise has been working.

Reference strategy - the most widely-spread and practice-proved approaches to business development.

Retrenchment strategy – a strategy applied when the company's work needs to be rearranged after continuous growth or efficiency increase, such as a structural reconstruction.

Rules of the game - formal and informal institutions that significantly shape the strategy and performance of firms, both domestic and foreign, in emerging economies.

4. INTERNATIONAL CORPORATIONS TECHNOLOGY POLICY

4.1. Technology Cycle Dynamics

The corporation technology policy concerns an economic situation. It comprises economic dynamics cycles of different duration that are interconnected by non-linear reverse ties. New technologies appear in the decreasing period of a previous cycle and develop in the next one.

Today, there are six N.D. Kondratiev cycles:

a) cycle 1 (about 60 years – from the 1780s till the 1840s-50s) – the first technology order based on water and steam engines, cotton industry;

b) cycle 2 (about 50 years – from the 1840s till the 1890s) – the second technology order based on the railway, ferrous and steamship industries;

c) cycle 3 (about 45-50 years – from the 1890s till the 1940s) – the third technology order based on electric motors, electrotechnical and heavy engineering, inorganic chemistry;

d) cycle 4 (about 40 years – from the 1940s till the 1980s) – the fourth technology order based on organic chemistry as well as automobile, tractor, non-ferrous and oil refining industries;

e) cycle 5 (about 35-40 years as a prediction – from the 1980s till the 2020s) – the fifth technology order based on microelectronics, personal computers, Internet, telecommunications;

f) cycle 6 (about 30 years as a prediction – from the 2020s till the 2050s) – the sixth technology order based on pollution-free power generation, bio- and nanotechnologies, new material production, advanced information technologies.

The sixth technology order will involve achievements of the fourth industrial revolution (Industry 4.0).

Industry 4.0 is regarded as:

– digitization and vertical integration when generating value (from product design and purchase till manufacturing, logistics and services);

– digitization and horizontal integration when generating value (activities beyond the company – work with providers, customers and all key partners in the value generation process);

– product and service digitalization (equipping current products with intellectual sensors or communication devices that are compatible with data analysis tools);

– digital business models and access to customers (a more comprehensive range of company services with revolutionary digital ideas – e.g. complex personified data-based services and integrated platforms for simplified customers' access to company products or services).

The primary Industry 4.0 technologies that company develop and engage are:

1) Big data analysis.

Use directions: product quality increase, power saving, facility maintenance improvement.

2) Autonomous robots.

Modern robots are designed to interact between themselves and with people, to learn and optimize their operations. For example, the Kuka company manufactures autonomous robots that can modify and correct their functions to the following line product. Sensors and control panels assist them in communicating with people.

3) Simulation (modelling).

Virtual modelling of products, materials and processes is already involved when engineers design them. In the future, people will use it to simulate complete cycles of operational and manufacturing processes.

4) The industrial Internet of things.

It means that facilities and undermanufactured products are equipped with sensors. That can convey considerable data traffic between facilities and centralized control systems. Also, it can provide decentralization of analytical systems and decision making. All those features work in an online mode.

5) Cybersecurity.

Industry 4.0 aims at data exchange increase beyond a company. Cloud storage is also enhanced. Under such circumstances, cybersecurity is an essential need for manufacturing and social systems to work correctly.

6) Adaptive manufacturing (e.g. 3D printing).

The Industry 4.0 adaptive manufacturing tools are used to prototype and create product details or small customized batches.

7) Augmented reality.

Augmented reality systems optimize storage work and send instructions to manufacturers when they repair facilities. For example, virtual reality headsets generate repair instructions online (how to replace details) and send them to a peculiar facility.

4.2. The Technology Policy Concept and Tasks

The company technology policy is a range of principles and actions (activity ways) for selecting, designing and developing new products and technology processes.

The technology policy tasks comprise:

1) monitoring research achievements and general technology tendencies in the world;

2) promoting a stable increase in the company staff education and qualification;

3) providing an organizational company structure that is suitable for securing a continuous innovation process and staff motivation;

4) coordinating and matching R&D actions (research and development) of different company departments.

There are such types of technology policy:

– the centre-for-global technology policy;
– the local-for-local technology policy;
– the local-leveraged technology policy;
– the global-linked technology policy.

The centre-for-global technology policy

This policy is implemented when a company designs new technologies that are a subsequent basis for manufacturing new products in the country where the leading enterprise is situated. An extensive sale network keeps product and innovation distribution in the world market. Usually, these companies get great financial R&D state support. The centre-for-global technology policy is effective in case of a permanent corporation management control. In particular, international corporations decrease terms of implementing R&D projects through interaction between designers and assemblers.

The policy disadvantage consists of the fact that innovations underreveal the demand of peculiar markets while subsidiaries resist coordinated, centralized decisions.

The local-for-local technology policy

This policy aims at creating technology innovations by international corporation subsidiaries (which involve their capabilities and resources satisfying the needs of a peculiar market).

The policy disadvantage is a high level of foreign subsidiary independence within technical developments. As a result, different subsidiaries promote the same technical projects, and capital investments are duplicated, monetary funds do not affect properly.

The local-leveraged technology policy

This policy is based on engaging subsidiary resources to generate innovations for both local and other markets. It can unite innovation resources of all units within a whole investment project.

The policy disadvantage is difficulty in corporation management functioning because of permanent R&D control and coordination among departments. Moreover, it increases information flows between subsidiaries and the leading company.

The local-leveraged technology policy is integrated into a global technology advance system using innovation departments' local competitive advantages.

The global-linked technology policy

This policy is based on considering the peculiarities of local markets and local innovation departments. In other words, it combines the centre-for-global and local-for-local policies.

4.3. Location System Selection for Corporation R&D Departments

There are two types of foreign R&D departments:

1) Departments for knowledge transfer (created in the country where the leading company is situated) and subsequent commercialization. They are called the home-base exploiting (HBE) departments;

2) Departments for corporation know-how increase (by using its foreign sources). They are called the home-base augmenting (HBA) departments.

The HBE departments adapt centralized corporation technologies to the demand of peculiar markets and introduce them into manufacture. The HBA ones identify competitors and other institutes' innovations; the obtained information is sent to the company central office.

One distinguishes two main models that are involved in organizing work and locating R&D departments. They are the Gerpott and Pearson–Brockhoff–Bohmer models.

The Gerpott model

According to the Gerpott model, the subsidiary R&D efficiency depends on:

– technology attractiveness;

– technology position;

– management decision-making practice.

Suppose there is high attractiveness of new technology (a big sale and competitiveness increase is predicted), capital investments into technology improvement rise. A strong corporation technology position defines its more aggressive international policy. A weak one makes the company cooperate in technology activities.

Graphically the Gerpott model is indicated in figure 5.1.

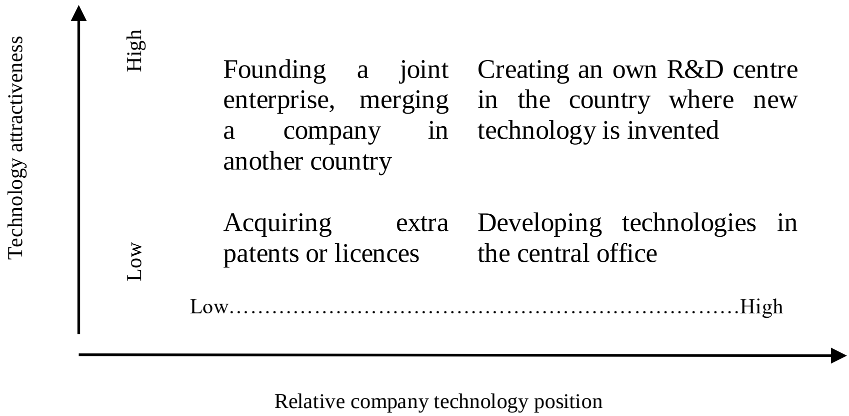

Figure 4.1. The Gerpott model

Assessing and selecting an R&D location (as to the Gerpott model) is performed in such an order:

1) analysis of the company technology position and its attractiveness. Definition of the organization form within the R&D sphere;

2) estimation of the R&D department locations. That is the customers' demand study through the three-level hierarchical model:

a) level 1 – definition of company competition advantages (which should be created and enhanced);

b) level 2 – information analysis from outer sources (which influences generating company competition advantages);

c) level 3 – selection of the R&D department location.

There are two axes: technology attractiveness and technology position. Within them, four quadrants are obtained (1. low technology attractiveness – low technology position; 2. low technology attractiveness – high technology position; 3. high technology attractiveness – high technology position; 4. high technology attractiveness – low technology position). Peculiar measures are taken to enhance the company technology policy.

The Pearson–Brockhoff–Bohmer model

This model is visualized as a rhombus of the M. Porter competition factors. It is modified to explain the R&D centre location. The model comprises four elements:

– human resources, staff qualification;

– "supporting technologies" (technology infrastructure);

– demand for R&D results;

– competition.

4.4. New Factory Models

Today, there are three main factory models:

1) The "smart" automated factories

They aim at mass manufacturing of low-cost products. Among the key technologies that the "smart" factories involve, one distinguishes a whole complex of Industry 4.0 technologies in the entire manufacturing process (automatization, sensors, robots etc.).

2) The customer-directed factories

Such enterprises react quickly to market changes and generate personified supply for customers significantly and with affordable price.

Among the key technologies that the customer-directed factories involve, one distinguishes:

a) designing programmes (they provide customers with a possibility to design goods as to their own needs, which form particular requirements for the factory);

b) systems of predicting demand fluctuations accurately based on big data;

c) 3D scanners;

d) 3D modelling and designing applications;

e) 3D printers with high performance.

3) The mobile factories (they aim at the niche and distant markets).

These enterprises usually manufacture a relatively small amount of products; they possess low capital expenditure and high mobility. Their batches are restricted. However, the factories themselves can be expanded with an increase in manufacturing capacity as soon as possible.

Among the key technologies that the mobile factories involve, one distinguishes:

a) modular manufacturing lines (which can be delivered, assembled and plugged in quickly);

b) 3D printers for manufacturing separate details;

c) flexible logistic systems.

Topical questions

1. Differentiate between N.D. Kondratiev six cycles.
2. Define the critical Industry 4.0 technologies.
3. Determine the concept of company technology policy.
4. What are the tasks of company technology policy?
5. Enumerate and explain the types of international company technology policy.
6. What are the local-for-local technology policy disadvantages?
7. What are the types of foreign R&D departments?
8. Describe the R&D department location factors within corporations.
9. Explicate the Gerpott model.
10. What new factory models are distinguished today?

Test

Answer «Yes» or «No»

1. The corporation technology policy does not concern an economic situation.

A) yes;

B) no.

2. A strong corporation technology position defines its more aggressive international policy. A weak one makes the company cooperate in technology activities.

A) yes;

B) no.

3. One distinguishes between four main models that are involved in organizing work and locating R&D departments.

A) yes;

B) no.

4. Product digitization equips current products with intellectual sensors or communication devices compatible with data analysis tools.

A) yes;

B) no.

5. The local-for-local technology policy is based on creating technology innovations by international corporation subsidiaries (which involve their capabilities and resources satisfying the needs of a peculiar market).

A) yes;

B) no.

6. The global-linked technology policy disadvantage is difficulty in corporation management functioning because of permanent R&D control and coordination among departments.

A) yes;

B) no.

7. The global-linked technology policy is based on considering peculiarities of local markets and local innovation departments.

A) yes;

B) no.

8. According to the Gerpott model, if there is high attractiveness of new technology (a big sale and competitiveness increase is predicted), then capital investments into technology improvement rise.

A) yes;

B) no.

9. Among the key technologies that the customer-directed factories involve, one distinguishes modular manufacturing lines (which can be delivered, assembled and plugged in quickly), 3D printers for manufacturing separate details, flexible logistic systems.

A) yes;

B) no.

10. The Pearson–Brockhoff–Bohmer model is based on a rhombus of the M. Porter competition factors.

A) yes;

B) no.

Answers: 1) B; 2) A; 3) B; 4) A; 5) A; 6) B; 7) A; 8) A; 9) B; 10) A.

Choose correct answers

1. The economic cycle decreasing period is characterized by:
A) profound crises and mild depressions;
B) profound crises and severe depressions;
C) economic growth and mild crises;
D) economic growth and profound crises.

2. Within what technology policy does an international corporation develop new technologies and products in the home base country?
A) the centre-for-global technology policy;
B) the local-leveraged technology policy;
C) the local-for-local technology policy;
D) the global-linked technology policy.

3. What cycle is based on the technology order when electric motors, electrotechnical and heavy engineering are promoted?
A) cycle 1;
B) cycle 3;
C) cycle 2;
D) cycle 4.

4. What cycle is based on the technology order when the automobile, tractor and non-ferrous industries are promoted?
A) cycle 1;
B) cycle 3;
C) cycle 2;
D) cycle 4.

5. The economic situation comprises:
A) cycles of different duration;
B) functional cycles;
C) cycles of the same duration;
D) 5-year cycles.

6. What cycle is based on the technology order when microelectronics and personal computers are involved?
A) cycle 3;
B) cycle 5;
C) cycle 4;
D) cycle 6.

7. Within what technology policy do the international corporation subsidiaries develop innovations?

A) the centre-for-global technology policy;

B) the local-leveraged technology policy;

C) the local-for-local technology policy;

D) the global-linked technology policy.

8. According to the Gerpott model, selecting an R&D location is not defined by:

A) technology attractiveness;

B) technology position;

C) staff qualification;

D) management decision-making practice.

9. What technology policy is based on considering peculiarities of local markets and local innovation departments?

A) the centre-for-global technology policy;

B) the global-linked technology policy;

C) the local-for-local technology policy;

D) the local-leveraged technology policy.

10. How many elements do the Pearson–Brockhoff–Bohmer model include?

A) 2;

B) 3;

C) 4;

D) 5.

Answers: 1) B; 2) A; 3) B; 4) D; 5) A; 6) B; 7) C; 8) C; 9) B; 10) C.

Cases

1. Design for Delight

Some years ago, the Intuit software company managers understood a need to search for new ways of attracting customers. There was a slower increase in the pure company promotion index. Customers offered their friends to buy new company goods with less desire. Therefore, the enterprise decided to arrange for their 300 top managers a 2-day outdoor workshop on the topic "Role of design innovations". The first day was fully dedicated to the agenda "Design for delight". The critical event of this day had to be a PowerPoint presentation by Scott Cook (the company founder). Since his report was not as inspiring as that of Steve Jobs, Cook was heard reluctantly.

However, the next reporter proposed practical tasks to develop new prototypes, collect reviews and improve final models. Incredibly, that enchanted the audience. As a workshop result, a group of nine specialists was decided to be set up. These people were so-called "innovation accelerators" from different company departments. Their duties were assisting employees in prototype creation and test, communicating to customers.

Accelerators' work comprised three stages: diagnosing (study of customers' demand), brainstorming (ultimate collection of ideas and their implementation ways), programming (generation of an effective two-week programme for the appeal to customers). The Intuit "Design for delight" principle resulted in both satisfying customers' demand and delighting them.

Case questions:

1. What changes were there in the company activity after the workshop? Were they strategical?

2. Why does the company need innovations?

3. How do innovations attract more customers?

2. The Brabazon Aircraft

In the 1940s, the British governmental committee (under Baron Brabazon of Tara) proposed its future variant of civil aviation development in Great Britain. A luxury aircraft had to be manufactured for 100-passenger flights from London to New York, aimed at wealthy customers with the ultimate service needs. The committee was going to involve highly-skilled bomber designers. Eventually, the Bristol Aircraft Company was selected. The negotiations resulted in the Bristol project started in the middle of the 1940s under George Leslie.

The 177-foot long and 230-foot wide aircraft had to be equipped with an 18-cylinder Bristol Centaurus engine. With eight engines (mounted by pairs into both wings), this big aircraft had to be hermetic and carry a relatively small amount of passengers in the most comfortable conditions. The plane would be huge: apart from large and comfortable passenger seats, there were enough places for bars and halls. No big aircraft of such a type existed at that time (except for Howard Hughes' water aircraft called Spruce Goose that did not take off). By the way, the aircraft wingspan was higher than that of many modern planes. The airliner was going to take off in 1947, although its first flight was only in 1949. When the Brabazon aircraft was ready for operation, the whole market strategy proved to be wrong. At that moment, there was already a need for cheap and fast flights by jet. The Havilland Comet 1 plane of the 1950s matched these requirements. Then, that idea was gradually developed and improved by the Boeing 707 and 747 airliners, the Airbus A 380 aircraft. The Bristol Brabazon Type 167 plane was forgotten in the middle of the 1950s. Its Mark II version was not put into mass manufacturing. Therefore, the aircraft was not used to carry passengers.

Case questions:

1. What external environment industry factors were considered when the Brabazon project was started?
2. What changes happened, and how did they affect the project?
3. How did the project technology environment changes affect its prospects? Give examples of technology changes.

3. Glocalization

Over decades, the General Electric company and other facility manufacturers of developed countries expanded thanks to creating some home advanced technology products and its distribution worldwide with local adaptations. Such an approach is known as glocalization. Companies must do opposite actions: to learn promoting simple products (manufactured especially for developing markets) in mature markets. That process called reverse innovation is quite tricky in terms of management. It requires decentralizing in local markets, which contradicts the centralized structure of international companies aimed at glocalization.

The General Electric company solved such a problem through a peculiar anomaly (connected with the GE Healthcare ultrasonography devices). Chinese village hospitals are underfunded, so that they cannot afford complex ultrasonic equipment. Thus, the General Electric subsidiary manufactured a cheap and portable laptop-based ultrasonic device with special peripheral units and applications. The product sale succeeded in China and developed countries. One started using the device in places where portability is critical (e.g. accident sites). The team succeeded thanks to the direct company support, which provided the subsidiary with ultimate independence. Since that time, the GE company launched about ten similar projects. They tried to transcend markets of developing countries and not to let competitors counteract in the home market.

Case questions:

1. What are the advantages of international company glocalization?

2. Enumerate factors of GE Healthcare success in manufacturing ultrasonography devices.

3. Describe peculiarities of reverse innovations.

4. Origin of Revolutionary Innovations

Let us observe another situation. Once, a tea bag was a significant innovation. After introducing it to the market, its design remained invariable for many years. This innovation may have been not evident (comparing with bulk tea leaves), so that companies did not aspire to this innovation improvement. Instead of that, their attention was paid to teabag quality. Then, the Tetley company introduced a round bag, which resulted in a better tea drawing and taste. The Unilever enterprise produced a pyramid bag (threads could tighten it for squeezing liquid till the last drop and keeping the kitchen floor clean). The tea bag revolution seemed to appear from nowhere. A young researcher with burning eyes represented these changes many years ago. However, they fell into oblivion because of their untimeliness.

Among famous stories about significant innovations and stubborn individuality, there is a Post-it Note story. Giffard Pinchot III told it in the book "Intrapreneuring" (there an explanation is given how people can become entrepreneurs within an organization). Arthur Fry was the Post-it brand face. He coped with many obstacles to introducing his innovation to the market. Below you can read some of Giffard Pinchot's stories.

Arthur Fry invented the Post-it Note idea to make bookmarks (from separate pieces of paper) in his church hymn book. They always fell out.

He waited for his turn to produce prototypes by pilot equipment. At that moment, he worked for 40 hours in succession.

Since colleagues were indifferent, he left Post-it Notes on desks (to interest them in the invention use). Arthur invested much money of his limited budget to promote the internal project sale.

While the Post-it Note machine required assembling in six months (as his engineers' estimation), he made it himself at home just in one weekend. According to Fry, the most significant problem was the innovation itself: it was so original that he could not find any words to explain the invention.

The Arthur Fry had never used the whole Post-it Note potential. Sticky paper pieces were introduced to the market as a new and comfortable way of leaving messages. They were indeed suitable. However, the company failed in their other usage directions. The Post-it Notes did not appear in the market as a creativity tool, a mini-archive system or a visual supplement. Only later the invention was offered to be produced in any other shapes, sizes and colours.

The company had never regarded the Post-it Note as a brand. The absence of the patented Post-it Note name allows competitors to introduce new goods.

Case questions:

1. Why did the company not accept Arthur Fry's innovation?
2. Enumerate innovator's features.
3. What obstacles did Arthur Fry have when implementing his innovation idea?

5. How does the Augmented Reality Generate the Company Value?

The augmented reality (AR) generates commercial value in two ways: 1) by manufacturing products; 2) by enhancing performance – in product design or its manufacture, marketing, service.

The augmented reality promotes better interface creation and digital product ergonomics. Being instrumental in products conveying customers some essential operation and security data is a point to differentiate the product or company.

Monofunctional projecting AR displays, portable devices (like smart headsets) are advanced interfaces with a wide range of variants for many manufacturers. The AR display can report that a car is locked, a petrol tank is full, correct front tyre pressure is low. In kitchens, the virtual reality headset can trace oven temperature, a dish recipe text etc.

The augmented reality can lay 3D models over the physical world as holograms helping engineers to enhance product design. For example, one may get a full-scale 3D hologram of construction machinery (engineers can walk around it with their estimation of the working place ergonomics etc.).

The AR technologies are involved in instructing employees on assembly lines (with minor manufacturing failure); to collect information from automatization and control systems as well as from secondary sensors; to visualize some monitoring and diagnosing data.

As a logistics leader, the DHL company uses AR technologies to increase delivery efficiency and accuracy. They provide workers with the best routes of the goods delivery.

The AR technologies change the conception of exhibition halls and product demonstration. They transform consumers' experience as well. The AZEK building company involves AR technologies to represent different coatings and tiles to customers. The Wayfair and IKEA companies offer 3D product and additional images (to show their integration into the room interior).

The AR technologies assist technicians in serving customers (they show some product analytical data; instruct specialists visually, and connect them remotely to other experts during the online product repair). The Xerox company uses AR technologies for operation engineers' communicating to peculiar experts (instead of providing maintenance instructions or telephone support).

Case questions:

1. How does the augmented reality generate the company value?
2. Give some examples of generating value when a company works.
3. How can AR technologies evolve? What may different technologies be created based on the AR ones?

Chapter Summary

1. Kondratiev cycles illustrate long-term economic dynamics, where new technologies emerge towards the end of a cycle and flourish in the subsequent one. Six cycles have been identified, with each lasting approximately 30 to 60 years and characterized by distinct technological advancements. Industry 4.0 represents the current phase, emphasizing digitization, automation, and integration across manufacturing processes.

2. Industry 4.0 entails digitization and integration across various aspects of value generation, including product design, manufacturing, logistics, and customer services. Key technologies driving Industry 4.0 include big data analysis, autonomous robots, simulation (modeling), the industrial Internet of things, cybersecurity, adaptive manufacturing (e.g., 3D printing), and augmented reality.

3. The company technology policy encompasses principles and actions for selecting, designing, and developing new products and processes. Tasks of technology policy include monitoring global technology trends, promoting staff education, fostering an innovative organizational structure, and coordinating R&D efforts.

4. Various types of technology policies consist of center-for-global, local-for-local, local-leveraged, and global-linked strategies, each with specific advantages and challenges.

5. There are types of foreign R&D departments: 1) home-base exploiting fepartments (set up in the country where the parent company is located;

adapt the corporation's centralized technologies to meet the specific demands of local markets and facilitate their commercialization and manufacturing); 2) home-base augmenting departments (establish abroad to leverage foreign sources for increasing the corporation's know-how; identify innovations from competitors and other institutions and relay this information back to the company's central office/

6. Two primary models for organizing and locating R&D departments are discussed: the Gerpott model and the Pearson–Brockhoff–Bohmer model. The Gerpott model emphasizes the importance of technology attractiveness and position, while the Pearson–Brockhoff–Bohmer model focuses on competitive factors. Both models provide a structured approach to optimizing the placement and organization of R&D activities to enhance corporate innovation and competitiveness.

7. Three main factory models are identified: smart automated factories, customer-directed factories, and mobile factories, each catering to distinct market demands. Smart automated factories focus on mass production using Industry 4.0 technologies, while customer-directed factories prioritize customization and rapid response to market changes. Mobile factories target niche and distant markets with low capital expenditure and high mobility, utilizing modular manufacturing lines and flexible logistics systems.

Key Terms

1. *Adaptive manufacturing (3D Printing)* – a manufacturing processes that can quickly adapt to produce customized products or small batches, often utilizing additive manufacturing techniques like 3D printing.

2. *Augmented reality* - technology that overlays digital information and images onto the physical world, enhancing real-world environments with virtual elements, often used for optimizing workflows and providing instructions.

3. *Centre-for-global technology policy* - a technology policy focused on designing new technologies centrally and distributing them globally through extensive sales networks.

4. *Customer-directed factory* – a manufacturing facilities focused on customization and rapid response to market changes, utilizing technologies like 3D design and predictive analytics.

5. *Gerpott model* - a model for assessing subsidiary R&D efficiency based on technology attractiveness, position, and management decision-making practices.

6. *Global-linked technology policy* - a technology policy combining global and local considerations to address the peculiarities of both local markets and innovation departments.

7. *Home-base augmenting (HBA) department* - R&D department focused on increasing the corporation's knowledge base by identifying external innovations and competitors.

8. *Home-base exploiting (HBE) department* - R&D department focused on adapting centralized technologies to local markets and commercializing them.

9. *Horizontal integration* - collaboration and integration of activities beyond the company, including suppliers, customers, and partners, to enhance value creation.

10. *Industrial Internet of Things (IIoT)* - the network of interconnected devices, sensors, and equipment within industrial environments, enabling data collection, analysis, and decision-making.

11. *Industry 4.0* - the fourth industrial revolution characterized by the integration of digital technologies, automation, and data exchange in manufacturing processes.

12. *Kondratiev cycle* - long-term economic cycle characterized by technological innovations and shifts in industries, typically lasting several decades.

13. *Local-for-local technology policy* -a technology policy aimed at creating innovations tailored to specific local markets by international corporation subsidiaries.

14. *Local-leveraged technology policy* - a technology policy leveraging subsidiary resources to generate innovations for both local and global markets.

15. *Mobile factory* – a manufacturing facility designed for niche and distant markets, characterized by low capital expenditure and high mobility, often utilizing modular manufacturing lines and flexible logistics systems.

16. *Pearson-Brockhoff-Bohmer model* - a model for selecting the location of R&D departments based on factors like human resources, supporting technologies, demand for R&D results, and competition

17. *Simulation (modelling)* - virtual representation and testing of products, materials, and processes to predict behavior and performance, aiding in design and optimization.

18. *Smart automated factory* – a manufacturing facility equipped with Industry 4.0 technologies for mass-producing low-cost products efficiently.

19. *Technology policy* - principles and actions governing the selection, design, and development of new products and technology processes within

a company, including tasks like monitoring research, promoting education, and coordinating R&D efforts.

20. *Vertical integration* **-** the integration of different stages of production or distribution within a single company, from design to manufacturing to distribution.

5. ASSESSING INDEXES FOR INTERNATIONAL COMPANY'S ACTIVITIES

5.1. Approaches to assessing the international company's productivity

There are many various approaches to assessing the international company's productivity. Within all of them, analytical coefficients are used to describe an entity's activities.

The coefficient analysis is quite a simple assessing approach. Indexes assist in estimating a company's work retrospectively via external reports. It is common to engage in analyzing methods and models based on generalizing indexes.

One of the first such assessing models was the F.D. Brown model. It is based on interconnections between returns on sale and asset as well as resource productivity.

The Du Pont model

In the 20th century end, companies shifted from profit maximization (previously, it had been tightly related to managers' interests) to the enterprise's value increase.

The company's management model by the value control is based on the EVA index (Economic Value Added). This indicates that the entity generates the value-added only if its invested capital profitability exceeds alternative costs.

The Balanced Scorecard idea (BSC)

When assessing a company's activities, the BSC idea includes the interests of all concerned persons. It comprises four index groups that represent the company's work processes:

– the finance assessment group;
– the customer relation assessment group;
– the internal business assessment group;
– the education, skill development and infrastructure assessment group.

A significant BSC drawback is the absence of the final aggregate index for the entity's productivity. The BSC can be successfully introduced if the enterprise's organizational structure and internal accounting are established. Usually, the BSC conception comprises some strategic directions without comparing the actual and planned index values.

5.2. Groups of the Company's Key Indexes

The key performance indexes (KPIs) belong to quantitatively measurable indicators used to assess a company's activities from the long-term perspective.

These indicators define the company's strategic, financial and operational achievements (especially in contrast to other enterprise's results within the same industry).

There are the lagging and leading indicators.

The lagging indicator is a measurable index that changes only after the specific business aspect has started following a particular scheme or tendency. The arrow shows the long-term business trends without predicting them.

The last company's efforts influence this index. For example, the profit obtained within a particular period is a lagging indicator.

Among the lagging indicators, one distinguishes:

– sold products;

– incurred costs;

– profits;

– the net promoter score (customers' readiness for advising other people on the company's goods or services).

The net promoter score (NPS) is the customers' loyalty index. It is used to assess how customers "feel" the enterprise. The high NPS leads to a long-term profit rise. This indicator is defined via polling (the question "How willingly would you advise your friend to use the company's products or services?" is asked)

Answers are given within the 0-10 point scale. The NPS varies from -100 (the worst value) to 100 (the best value).

Considering the 1-10 point customer's rating, people can be classified as promoters, passive or ill-disposed customers.

Promoters (9-10 points) are regarded as "ambassadors" and "enthusiasts".

Passive customers (7-8 points) are treated as people with a neutral view of the company.

Ill-disposed customers (0-6 points) are unsatisfied persons who may negatively criticize the company's brand.

The formula defines the NPS:

$$\text{NPS} = \text{\% of promoters} - \text{\% of critics} \qquad (5.1)$$

The lagging indicators are easy to measure but hard to influence. They are used as a basis for analyzing and improving the company's processes.

The leading indicators are involved in predicting business prospects. They are applied to correct the strategy for providing favourable business conditions in future.

Among the leading indicators, one distinguishes:

– arranged demonstrations;
– web page views;
– company's blog subscribers;
– leads;
– patents;
– innovations;
– predicted customers' satisfaction;
– new market rise;
– brand rise.

Companies can engage a combination of three index groups: the financial, customer-oriented and employee-oriented indexes.

The financial indexes

In companies concentrated only on the profit indicators, some innovation problems may happen. Financial aims can pressurize managers. They focus on short-term profitability rather than innovations.

Also, the financial indexes provide no complete sense of the company's activity results. If enterprises do not run any idea risks, they may be regarded in the business sphere as "the past achievement resellers and repackers".

<u>Case</u>

In the 1990s, the Microsoft company was the advanced technology leader. After 2000, the enterprise competed with Google and Apple, whose products (iPhone and Google Maps) changed customers' demand. The Microsoft sale was rescued by the updated Windows Office versions, although its constant fall was going on. The company applied the stack rating (a productivity management approach). Within this system, employees were classified by their productivity. Their top was equal to shareholders; their bottom (5-10%) was discharged. The new system raised competitiveness and ended teamwork rather than increased productivity itself. Finally, instead of cooperating with new ideas, the employees had to get into the company's graces for survival.

Types of the financial indexes

There are the absolute and relative financial indexes.

The absolute financial indexes comprise:

1) The profit (the pure sale income).

2) The gross profit (the difference between the product sale profit and its cost price). It includes fixed and variable costs connected with the manufacture (e.g. some raw material costs, salaries).

3) The marginal profit (the difference between the profit and variable costs). It is used to define the most and least profitable business activities.

4) The operating profit (the difference between the gross profit and operating costs).

5) The pure profit (the enterprise's accounting profit after paying taxes and other charges).

The company's investment attractiveness is shown by the EBIT and EBITDA indexes.

The EBIT index is profit with unpaid taxes and interests. The contrast between it and the operating profit consists in the fact that EBIT includes incomes and costs not related to operations themselves (in other words, it is called the non-operating profit). If there are no other incomes and expenses within the company, the operating profit equals the EBIT indicator.

The EBITDA index is the company's financial result, which stands for a profit before interests, taxes, wear and tear are withheld.

The index approximately estimates money flows excluding wear and tear. It helps to compare the same industry enterprises with different capital structures.

The EVA index is the economic value added. It is the difference between the pure operating profit (after paying taxes) and its invested capital.

EVA = the pure operating profit (after paying taxes) - the capital value * capital (5.2)

The EVA indicator can be applied for the company's investment estimation in general and that of the separate business, projects or department efficiency in particular.

The relative financial indexes comprise:

a) The business activity ratios. They measure the company's efficiency in completing daily tasks (accounts receivable and inventory).

b) The liquidity ratios. They measure the company's ability to cover its short-term liabilities.

c) The solvency ratios. They measure the company's ability to cover its long-term liabilities.

d) The profit ratios. They measure the company's ability to generate profits from its resources (assets).

The profit ratios

The *gross profit* defines *the* gross margin (the total profit interest remaining in the company after deducting production costs).

The operating margin shows what profit interest remains in the company after deducting cost, selling and administrative expenses. It is essential to keep the functional margin rise or stability at least.

The return on assets (ROA) defines how much profit is obtained from each monetary unit invested into business development.

The formula calculates the ROA:

ROA = the pure profit for a period / the asset amount for a period * 100%   (5.3)

To define the return on margin (ROM), the following formula is used:

ROM = sale profit / cost price * 100%   (5.4)

The formula estimates the return on sales (ROS):

ROS = (profit - cost price) / sale profit * 100%   (5.5)

The formula measures the return on equity (ROE):

ROE = pure profit / equity * 100%   (5.6)

The customer-oriented indexes

This group comprises:

a) The value of engaging customers (total costs for engaging/new customers' amount). This index assesses the economic efficiency of marketing campaigns.

b) The customers' amount.

c) The net promoter score.

d) The customers' satisfaction (e.g. percentage of people who rebuy goods or services).

The employee-oriented indexes

This group comprises:

a) The employees' turnover coefficient.

b) The percentage of responses to vacancies.

c) The employees' satisfaction.

<u>Topical questions</u>

1. Describe approaches to assessing the international company's productivity.
2. Explain groups of the company's productivity indexes.
3. Explicate the difference between the leading and dragging indicators.
4. Determine the financial index significance within assessing the international company's activities.
5. Enumerate types of financial indexes.
6. Define the EVA index essence.
7. Call the profit ratios.
8. What is the purpose of the company's applying the customer-oriented indexes?
9. Why is it essential for companies to use employee-oriented indexes?
10. What indexes are involved in assessing the staff management efficiency?

<u>Tasks</u>

1. Next year, the company is going to reach a 15% return on assets. What ratio of assets and capital will be if the 21% return on equity is planned?

2. The return on equity is 7%. The return on sales is 5%. What profit does the company have if its equity is 180 monetary units?

3. The pure profit is 350 monetary units. The interests are 15 monetary units. The tax rate is 20%. The wear and tear are 50 monetary units. Calculate the EBIT index.

4. The return on sales is 15%. The asset turnover is 1.5. The equity is 50 monetary units. The loan capital is 30 monetary units. Define the return on equity.

5. Calculate the 35% company's package value by the EV/EBITDA multiplier. The EBITDA index is 55. The EV/EBITDA multiplier is 7. The net liabilities are ten monetary units.

Test

Answer «Yes» or «No»

1. The coefficient analysis advantage is simplicity in their calculation.
A) yes;
B) no.
2. The leading indicators are applied to predict business prospects.
A) yes;
B) no.
3. The operating profit is the difference between the profit and variable costs.
A) yes;
B) no.
4. The operating profit is the difference between the gross profit and operating costs.
A) yes;
B) no.
5. The EBITDA index is the company's financial result, which stands for a profit before interests, taxes, wear and tear are withheld.
A) yes;
B) no.
6. The EBIT index is profit with unpaid taxes and interests.
A) yes;
B) no.
7. The gross profit cannot calculate the gross margin.
A) yes;
B) no.
8. The gross margin shows what profit interest remains in the company after deducting cost, selling and administrative expenses.
A) yes;
B) no.

9. The comparing method of assessing the management efficiency consists of contrasting its mechanisms in various corporation's management conditions.

A) yes;

B) no.

10. The management efficiency assessment is not performed only via the quantitative index dynamics.

A) yes;

B) no.

Answers: 1) A; 2) A; 3) B; 4) A; 5) A; 6) A; 7) B; 8) B; 9) A; 10) A.

Choose correct answers

1. What ratios measure the company's ability to cover its short-term liabilities?

A) the profit ones;

B) the liquidity ones;

C) the solvency ones;

D) the return ones.

2. The difference between the product sale profit and its cost price is called:

A) the gross profit;

B) the marginal profit;

C) the gross margin;

D) the operating profit.

3. Profit with unpaid taxes and interests is:

A) the EVA index;

B) the gross profit;

C) the EBITDA index;

D) the EBIT index.

4. The profit amount from each monetary unit invested into business development is measured by:

A) the return on assets;

B) the pure profit;

C) the gross margin;

D) the marginal profit.

5. The KPI customer-oriented indexes do not include:
A) the conversion ratio;
B) the net promoter score;
C) the product defectiveness index;
D) the employees' satisfaction.

6. The value of engaging customers is measured as:
A) total costs for engaging/new customers' amount;
B) company's costs / new customers' amount;
C) total costs for engaging / total customers' amount;
D) company's costs / total customers' amount.

7. The net promoter score is measured as:
A) % of critics - % of promoters;
B) % of critics + % of promoters;
C) % of promoters - % of critics;
D) % of promoters + % of critics.

8. The difference between the profit and variable costs is called:
A) the gross profit;
B) the marginal profit;
C) the operating profit;
D) the pure profit.

9. The difference between the pure operating profit (after paying taxes) and the company's invested capital is called:
A) the EVA index;
B) the gross profit;
C) the EBITDA index;
D) the EBIT index.

10. The company's competitiveness is assessed via:
A) production costs, return on investment;
B) internal industry competition;
C) duration and stage of the industry market life cycle;
D) market capacity, company's share in the market.

Answers: 1) B; 2) A; 3) D; 4) A; 5) D; 6) A; 7) C; 8) B; 9) A; 10) D.

Chapter Summary

1. Various approaches exist for assessing the productivity of international companies, often utilizing analytical coefficients to describe their activities. These approaches include coefficient analysis, which evaluates a company's performance retrospectively through external reports, as well as models like the F.D. Brown model and the Du Pont model, which focus on the relationship between returns on sale, assets, and resource productivity.

The Balanced Scorecard (BSC) concept emphasizes the value increase of enterprises and considers four index groups: finance assessment, customer relations, internal business assessment, and education, skill development, and infrastructure assessment.

2. Productivity indexes, particularly Key Performance Indicators (KPIs), are quantitatively measurable indicators used to assess a company's long-term strategic, financial, and operational achievements. These indexes are divided into lagging and leading indicators.

Lagging indicators, such as sold products, incurred costs, profits, and the net promoter score (NPS), reflect past performance and trends.

Leading indicators, such as arranged demonstrations, web page views, patents, and innovations, are used to predict future business prospects.

Companies may use a combination of financial, customer-oriented, and employee-oriented indexes to assess their performance comprehensively.

3. Financial indexes include absolute indicators like profit, gross profit, operating profit, and pure profit, as well as relative indicators like business activity ratios, liquidity ratios, solvency ratios, and profit ratios. These ratios measure the company's efficiency, ability to cover liabilities, and ability to generate profits from its resources.

Customer-oriented indexes assess customer engagement, satisfaction, and loyalty, while employee-oriented indexes evaluate turnover, job satisfaction, and responses to vacancies.

Together, these indexes provide a holistic view of an international company's performance across various dimensions.

Key Terms

Analytical coefficient – a coefficient that used to describe entity activities across various assessing approaches.

Brown model **-** the model focusing on interconnections between returns on sale, asset, and resource productivity.

Coefficient analysis - a simple approach using indexes to estimate a company's performance retrospectively.

EBIT - the company's financial result, which stands for a profit with unpaid taxes and interests.

EBITDA - the company's financial result, which stands for a profit before interests, taxes, wear and tear are withheld.

EVA - the economic value added, the difference between the pure operating profit (after paying taxes) and its invested capital.

Gross profit - the total profit interest remaining in the company after deducting production costs).

Key performance indexes - quantitatively measurable indicators used to assess a company's activities from the long-term perspective.

Lagging indicator - a measurable index that changes only after the specific business aspect has started following a particular scheme or tendency.

Leading indicator - a measurable index that involved in predicting business prospects.

Net promoter score - the customers' loyalty index. It is used to assess how customers "feel" the enterprise.

Operating margin - profit interest remains in the company after deducting cost, selling and administrative expenses.

Return on assets - defines how much profit is obtained from each monetary unit invested into business development.

6. INTERNATIONAL BUSINESS MODELS

6.1. The Business Model Concept

There are different approaches to business model concept definition.

The business model is the reflection of an implemented strategy (Casadesus-Masanell and Ricart, 2010).

The business model is the goods, service and information flow architecture that describes different economic factor roles, acquisition possibilities and sources to increase company incomes (Paul Timmers in Journal on Electronic Markets, 1998).

The business model is the logic that demonstrates how the business creates and provides value for customers. It describes income and cost structure as well as profit acquisition mechanisms (Teece, 2010).

The business model is the description of how the company creates and keeps value.

The business model is a schematic reflection of how the company works.

The business model is a strategy derivative that determines processes (Peter Drucker, 2005).

There are two main approaches to concept business model definition:

1) The outside-work approach – value is created for customers (i.e. the company establishes supply and value, enters markets and creates money flows with profits).

2) The inside-work approach – inner company activities are improved (i.e. the company is described as a complex system of objects, processes, transaction performance rules and criteria to assess system efficiency).

According to Schön (Schön, 2012), any business model consists of three main components:

– the value proposition: goods or services, customers' needs, geography;

– the income model: price logic, channels and interaction with customers;

– the cost model: main assets and possibilities, main activity types, the network of partners.

According to Joanne Margaret, any business model has two parts:

– the creating ability: how goods or services are designed, produced and acquired;

– the selling ability: how goods or services are sold (to find customers and arrange sale).

The value for customers (goods and services), the value creation system, assets and the financial model (cost structure and profit acquisition ways) are crucial elements of company business models.

Business models are closely interconnected with strategies. The M. Levy equation shows such a link:

$$V=MS \qquad (6.1)$$

V is Value, M is Model, S is Strategy.

According to equation 6.1, the company has to determine the best business model to implement a strategy subsequently (which is aimed at creating value for customers and other stakeholders).

6.2. Business Model Typologies

There are different approaches to classifying business models. One defines the following typologies:

1) The shop-keeper model typology: a shop or company is created when potential customers are there.

2) The business model typology of particular companies. Within the 1950s-1990s, such companies as McDonald's and Toyota; Wal-Mart and Hypermarket; Federal Express and Toys R Us; Blockbuster, Home Depot, Intel and Dell Computer; Netflix, eBay, Amazon.com, Starbucks, Microsoft etc. created business models. In the 21st century, Google and IKEA started and implemented effective business models.

3) The MIT Business Model Archetypes typology. In 2004, the Massachusetts Institute of Technology specialists developed it.

4) The Business Model Framework typology. In 2006, H. Chesbrough developed it.

5) The P. Timmers business model typology. Those are models for online shops and public sale, e-mailing, market places, social networks, service providers, thematic platforms and information brokers.

6) The Netchising global business model. That is based on using the Internet for buying, selling and keeping relations with customers. It covers fair partner agreements to establish close contacts with customers, adapts to local conditions and supply goods and services.

7) The offline and online business model typology.

8) The C. Christensen business model typology:

a) the partner club model – selling goods only for particular groups (MBNA credit cards or loans);

b) the broker model – getting a profit interest from deals;

c) the packaging model – selling separate similar goods (e.g. in the fast-food sphere or online shops);

d) the mobile communication model – selling a set of services for different customers;

e) the crowdsourcing model – outsourcing content creation to somebody in exchange for access to other customers' content (Wikipedia, YouTube);

f) the freemium model – providing a restricted free content while the full version or additional services are paid (the Linkedln social network);

g) the disintermediation model – working without any intermediate subjects on the market where they are traditionally found (the Dell corporation);

h) the sale-by-parts model – providing customers with product parts that are necessary for them in different periods;

i) the leasing model – leasing expensive goods or services to customers (the Xerox corporation, which provides the infrastructure of a printed document as a service);

j) the low-cost model – decreasing the price of expensive goods and services if additional ones are refused by the customer (IKEA, Walmart);

k) the reverse production cycle model – pre-ordering and pre-paying goods and services (Amazon);

l) the post-payment model – paying for goods and services after their use (companies that supply heat, gas and water);

m) the bait-and-hook model – distinguishing between two interconnected products (telephone as bait and payment for speech time as a hook; printers as bait and cartridges for them as a hook; camera as bait and printing its photos as a hook);

n) the reverse bait-and-hook model – getting an income from the main product when accessories for it are offered (Amazon, Apple);

o) the product-to-service model – selling goods functions as a service rather than goods themselves (the IBM offer to buy software as a service; the Zipcar offer to rent a car with payment by the hour);

p) the standardisation model – producing and selling non-unique goods or services that are easily duplicated;

q) the subscription model – providing customers with access to services if they pay a fixed sum of money in advance (Netflix);

r) the co-authorship of a customers' model – getting incomes through membership fees and advertisements (the AngelList website for startups and angel investors);

s) the added-value model – modifying products to resell them with added value as new goods for final customers.

Archetypes of MIT business models are arranged according to two criteria (table 6.1):

– Types of rights to assets sold by a company. It can define four basic business models: creator, distributor, owner and broker.

– Types of assets used in business. It can define four basic asset types: physical, financial, non-material and human.

The H. Chesbrough Business Model Framework is based on two criteria: the scale of investments into the business model and its openness level (table 6.2).

Table 6.1 – Archetypes of MIT business models

What is sold?		Types of assets			
		Financial	Physical	Non-material	Human
Rights to assets	Significant change of ownership (creator)				
	Limited change of ownership (distributor)				
	Usage (owner)				
	Selection according to demand (broker)				

The O. Osterwalder business model canvas

The Osterwalder canvas is a universal language to describe, show, analyse and change business models. It includes nine elements (fig. 6.1):

1) Key partners (a list of partners and providers, description of partnership motivation, business resources received from the partnership);

2) Key activities (main company activities that determine value proposition, schemes of connections with customers, profit channels);

3) Key resources (those needed for value proposition; they are classified as physical, intellectual, human and financial);

4) Value proposition (value of goods or services for customers, customers' problems solved by them);

5) Channels (those used for communication with customers; the best one is selected);

6) Relations with customers (personal support, automatic service, self-service);

7) Customers' segments (main groups of customers, their features);

8) Income sources (what will be paid by customers);

9) Costs structure (definition of the highest costs and most spendable resources).

Table 6.2 – Typology of the H. Chesbrough business models

Type of business models	1	2	3	4	5	6
	Non-differentiated	Differentiated	Segmental	Outside directed	Integrated with innovation processes	Adaptive
Example	Family restaurant	New engineering companies	Companies designing a particular technology	Research and development companies on the mature markets	Leading financial companies	Intel, Dell, Walmart

<table>
<tr><td rowspan="2">Key partners</td><td>Key activities</td><td rowspan="2">Value proposition</td><td>Relations with customers</td><td rowspan="2">Customers segments</td></tr>
<tr><td>Key resources</td><td>Channels</td></tr>
<tr><td colspan="3">Costs structure</td><td colspan="2">Income sources</td></tr>
</table>

Figure 6.1. The O. Osterwalder canvas

6.3. Approaches to Business Model Development

Among the main approaches to business model development, one distinguishes:

– the approach based on cost minimisation via innovation technologies (determination of value proposition through low prices for goods);

– the approach based on current goods development or new ones' production;

– the approach based on innovations to company marketing and management, providing new forms of business organisation and realisation (transaction business models).

A classic example of the innovative business model implementation is competition between the Apple, Diamond Multimedia and Best Data companies to produce a digital music player, which Apple won. The Apple advantage was an innovative business model created and implemented as soon as possible. A combination of software, device and user's services made legal music downloading from the Internet quickly and affordable. Thus, the iTunes software sale (cheap and almost unprofitable) was combined with IPad devices (highly profitable), which resulted in a great business model success.

Ways of innovative business model implementation:

1) Reconsideration of traditional approaches to satisfy customers' needs. When competition on the market increased, the Hilti company (as the world leader in producing professional power tools for the construction industry) changed its business model drastically. Instead of ordinary product sale, it started selling services for managing customers' tool parks. Today the company not only sells power tools but also leases them.

2) Change in ways of providing customers with use-value, rearrangement of customers' policy. Among examples of such a business model, one can recognise the Nespresso international company (belongs to Nestle). Apart from a la carte coffee, the company offers its automatic coffee machines while the extensive choice of coffee varieties themselves can satisfy each customer's demands. Besides, Nespresso created its two-level sale system: manufacture's shops and Internet trade via the Nespresso club. Support centres for customers are available as well.

3) Reconstruction of profit generation mechanisms (by initiating new cost models and ways of use-value monetisation). Within low-cost carriers in 2004, the Qantas Australian company founded the Jetstar Airways enterprise with the ultra-low-cost model to decrease costs as much as possible.

The process of designing a specific business model is usually connected with a search for customers with unsatisfied needs who are ready and would like to pay for potential goods or services. Such a demand analysis can be regarded as the first step in business model creation.

According to C. Christensen, business model generation comprises three stages:

– to define customers and their demand;

– to establish value proposition: description of customers' problems (certain goods or services solve that); the income acquisition formula (that includes revenue estimation, cost structure, profit assessment and depreciation accounting); primary company resources and critical business processes (study, development and production as well as budgeting, planning and service work);

– to develop goods or services for satisfying customers' demand.

New business model implementation within an existing company may be complicated by cultural discrepancies and budget allocation difficulties between new and current company tasks.

Ambidexterity is a company ability to experiment with new enterprises without a decrease in existing income sources.

6.4. Business Processes in a Company Activity Model

The business process is a range of interconnected steps to reach an organisation goal within its existing structure.

The business process is a range of related tasks whose final goal is providing customers with services or selling them goods.

Components of any business process are input and output elements. The former consists of all factors (resources) that produce services or goods. The latter is goods or services as a business process result.

The business process result is a final goal reached through the business process.

The business process owner is a responsible person managing resources that are necessary to implement the business process. He can optimise or change steps within the business process to get a result.

The business process doers are a cross-functional team (specialists of different functional spheres). While the functional approach is based on doers' implementing functions, the process approach is interested in getting a final team result.

Types of business processes:

1) *The transaction processes* (primary ones). Such processes belong to the essential chain of generating company value. They generate added value for customers and satisfy their needs by producing goods or services. Transaction processes aim to implement company business goals, e.g., acquire additional profit and income sources (orders and support for customers, management of bank accounts).

2) *The supporting processes* (secondary ones). They comprise processes and functions within an organisation (business and management accounting, personnel management, labour safety). In contrast to transaction processes, supporting ones do not generate a direct value for final customers – they help branches implementing main business activities.

3) *The management processes*. They are aimed at measuring and controlling activities to keep the proper performance of company production and sale. Such processes cover internal communications, management, strategical planning, budgeting, infrastructure and capacity management. Management processes do not create customers' value.

According to their destination, business processes are classified as:

– *the primary business processes* (aimed at a final customer's result; it generates company incomes);

– *the accompanying business processes* (connected with goods or service production, which is a result of secondary company production);

– *the additional business processes* (implementing main business processes and keeping their features);

– *the securing business processes* (securing proper work of all business processes and supporting their primary functions);

– *the managing business processes* (performing a range of management functions on each business stage within and on the whole);

– *the developing business processes* (improving different business functions as a process and as a system).

According to their influence degree, business processes are classified as:

– *the lower-level business processes* (implementing operational company tasks);

– *the medium-level business processes* (satisfying tactical company goals);

– *the higher-level business processes* (carrying out a company strategy).

Business process description allows arranging all business iterations, analysing its work and problems. Business processes clarify individuals responsible for specific tasks and stages of making decisions. It is also essential that business processes simplify transaction cost management.

The method of successive approximation is used to describe business processes. It consists in the single approach to recording processes by different people, which is implemented as to the below-mentioned algorithm:

– to draw a business process map;

– to explain each of business process routes (they reveal a logistic business process schema: human, money, material and information movements);

– to construct a business process matrix (to establish business process interconnections and estimate their influence in a company).

For business process efficiency definition, three main groups of indicators are used:

– business process quality (final result in business process output);

– time of business process implementation;

– costs to initiate the business process.

Management of business processes comprises designing, modelling, optimising and re-engineering.

Business process modelling is a schematic structural reflection of business activities or functions within a company.

Business process optimising is a strategical planning concept aimed at partial change of business processes to increase sale efficiency.

Business process re-engineering is a total redesign of business processes after their thorough analysis.

Primary methods of business process modelling:

1) *The DFD diagram* – to show data flow for any process or system. For drawing a diagram, symbols are used: rectangles, circles, arrows, short text marks (for data input and output, points and routes between each destination).

2) *The ARIS toolset* – a multifunctional tool for large enterprises' joint work (as a business modelling methodology, it relies on the Oracle database) (fig. 6.2).

According to the ARIS idea, companies can be considered as:

– organisations (organisational structure, a balanced system of indicators);

– process / control (business processes);

– data (data structure, risk analysis);

– functions (review and structure of applied systems);

– products/services (stock of goods or services).

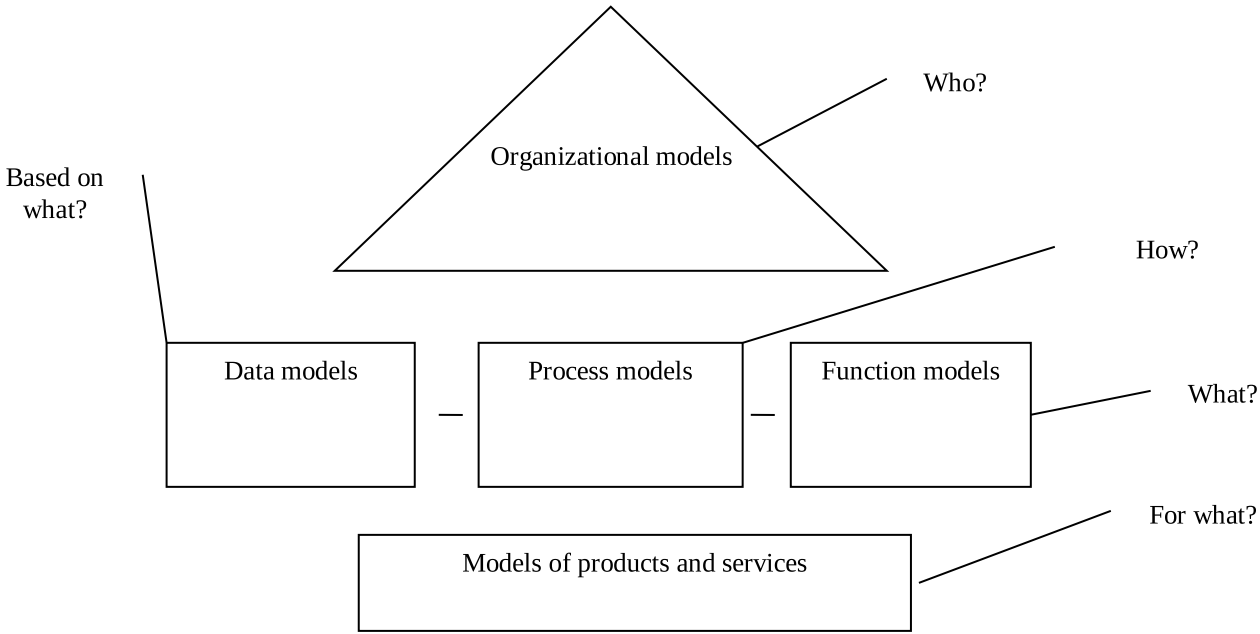

Figure 6.2. The ARIS methodology

3) *The BPMN methodology*

The Business Process Model and Notation (BPMN) methodology involves modelling steps of the planned business process. It visually shows a detailed sequence of business transactions and information flows being necessary to finish the process.

The BPMN methodology models such current processes as standardisation, workers' study, quality management and audit in diagrams (the latter consists of submodels).

There are the following submodels:

a) The private business processes. They are found in the organisation inside.

b) The abstract business processes. They occur between private processes and another participant or process. The abstract process shows the outer environment a sequence of messages (necessary for contacts with the private process).

c) The collaborative business processes. They demonstrate the interaction between two or more business objects.

4) *The UML methodology*

The Unified Modelling Language (UML) methodology is a standardised modelling language with an integrative set of diagrams. They are designed to define, visualise, build and record artefacts of program systems and model business.

The UML methodology uses graphical tools to design program projects. It promotes team's cooperating, studying potential projects and checking software architecture.

The UML suite provides a user with standard notations. It is developed for a broad range of applications and offers constructions for different systems and activities (e.g., distributing, distributing, analysing, and designing systems).

5) *The IDEF methodology*

The Integrated Definition (IDEF) software is a graphical methodology to model processes.

The USA Air Forces created it in the 1970s as a standard method to record and analyse business processes. The most used method varieties are IDEF0-IDEF4. Since there is a range of additional IDEF standards, the IDEF0 name is written with "0"). It is used to model company functions and generate a graphical model (for showing what controls functions, who performs them, what resources are engaged, what is produced, and how they relate to others).

The IDEF0 methodology includes one type of units. Each unit stands for one process. There are four arrows: inputs, management elements, outputs and mechanisms (they are together called ICOM).

The management arrows are an input form, which is used to define the direction of process activity. The difference between the input and management elements consists in the fact that the input data change to create outputs while the management component changes seldom.

The mechanisms are the resources and tools necessary to finish processes (humans with special skills, machines and other tools).

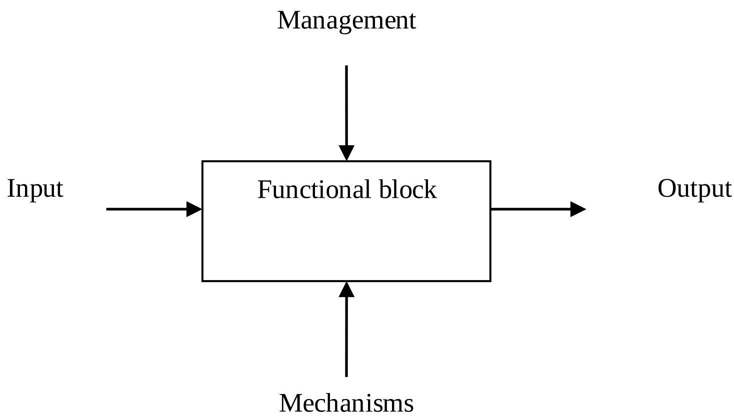

Figure 6.3. The IDEF0 functional unit

Each IDEF0 diagram consists of 3 to 6 operation units with the connecting ICOM arrows. Each unit can be subdivided to show a subprocess.

Diagrams are arranged with A-numbers. The upper-level diagram with one activity field is called the A-0 diagram. The lower-level diagrams are numbered and correspond to fields of initiated processes (thus, the first A-0 diagram square is A-1, whose the first subfield is A-11 etc.).

Each diagram also has the C-number for including subsequent versions of the same diagram. A previous C-number can accompany the C number in round brackets to show its elements' chronological order. The ICOM lines are numbered from above and left (therefore, the leftmost management element is C1, the following one is C2 etc.).

The IDEF0 methodology has such advantages:

– it can be used in almost all spheres;

– its diagrams are simple to understand;

– it thoroughly describes formal methodologies for denomination processes and diagrams;

– it can be engaged as a helpful tool to design processes;

– it can find the value of output processes to ensure that process design is practical.

Topical questions

1. Define the business model concept.
2. What are the main components of any business model?
3. How business models are classified? What typologies do you know?
4. What ways to design innovative business models exist today?
5. Explain the archetypes of MIT business models.
6. What elements does the Osterwalder canvas have?
7. Define main approaches to developing business models.
8. What types of business processes do you know?
9. What components does any business process have?
10. Explain the main methods of modelling business processes.

Test

Answer "Yes" or "No"

1. The main components of company business models are the customers' value, the system of creating value, assets, the financial model.

A) yes;

B) no.

2. Companies have to determine the best business model to implement their strategy. This strategy is aimed at generating customers and other stakeholders' value.

A) yes;

B) no.

3. Business models usually answer the question "How does a company work?"

A) yes;

B) no.

4. The business process result is an intermediate goal that is reached during its implementation.

A) yes;

B) no.

5. The lower-level business processes are those necessary to implement operational company tasks.

A) yes;

B) no.

6. The additional business processes are those to secure all business processes' proper work and support their main functions.

A) yes;

B) no.

7. Business process management includes designing, modelling, optimising and re-engineering.

A) yes;

B) no.

8. The IDEF0 methodology includes only one type of units.

A) yes;

B) no.

9. The franchising model creates a group of autonomous agents who perform repeated exchange acts.

A) yes;

B) no.

10. The technology value is defined by business models that promote them to the market.

A) yes;

B) no.

Answers: 1) A; 2) A; 3) A; 4) B; 5) A; 6) B; 7) A; 8) A; 9) B; 10) A.

Choose correct answers

1. How many units does the Osterwalder model comprise?

A) 7;

B) 8;

C) 9;

D) 10.

2. How many types of business models are there according to the MIT classification?

A) 14;

B) 15;

C) 16;

D) 17.

3. The Osterwalder model does not comprise such a component:
A) key resources;
B) relations with customers;
C) segments of customers;
D) income structure.

4. What business model has a more complex organisational structure?
A) B2B;
B) B2G;
C) B2C;
D) C2C.

5. The income model is:
A) product or service, customers' needs, geography;
B) price logic, channels, interaction with customers;
C) vision, strategy;
D) main assets, possibilities and activities.

6. The cost model is:
A) product or service, customers' needs, geography;
B) price logic, channels, interaction with customers;
C) vision, strategy;
D) main assets, possibilities and activities.

7. The Schön business model does not have such a component:
A) value proposition;
B) cost model;
C) income model;
D) competitors' map.

8. The business whose products are aimed at a separate market part with a limited range of customers is called:
A) the multilevel marketing business;
B) the online business;
C) the niche business;
D) the offline business.

9. The business aimed at creating a group of autonomous agents who perform repeated exchange acts is called:
A) the multilevel marketing business;
B) the online business;
C) the niche business;

D) the offline business.

10. The abstract business processes are those ones which:
A) occur between two or more business objects;
B) occur between private processes and another participant or process;
C) occur within a company;
D) do not cross-company limits.

Answers: 1) C; 2) C; 3) D; 4) A; 5) B; 6) D; 7) D; 8) C; 9) A; 10) B.

Cases

1. Law Changes and What was Subsequently Done by the Company

The project was initiated to bring products in correspondence with the new consumer protection law (new requirements for packaged goods). A standard method to define product weight in a package was the following: if 100 grams are stated on the package, the real product weight must be the same. If this rule was violated, the supplier could be sued or fined. This new approach (already used in some countries) was based on the statistical estimating criterion: a product batch must have no packages with weight differences.

Such an approach complicated retailers' work. Previously, they removed packages with weight violations, while nowadays, they had to include each product weight to match the total batch weight and law requirements. Company workers understood that they could use computers to record and account for production data. These devices could also control the packaging equipment (for product loading to the minimum weight).

Finally, a project was designed to keep new law requirements and avoid product overweight. It was successfully developed, and a system prototype was soon ready. The system worked correctly. It had to meet all new rules.

However, lobbying for producers and other interested persons resulted in no adopting the new law. Undoubtedly, it was a catastrophe for the project: there was no more reason for its implementation. All resources seemed to have been wasted. At this moment, some workers (possibly, from the marketing department) discerned two system functions: along with keeping the new law, a minimum overweighting had to be secured.

The second function could be initiated in the production process to make tiny overloading of the minimum package weight (e.g. 100 grams). That resulted in the producer's economising really without any losses in case the project had been denied.

Case questions:
1. What are the advantages of product weight control in the company?
2. Why was there a threat to deny the project?
3. How could the company rescue the project?

Chapter Summary

1. Business model innovation often involves reimagining traditional approaches to meet evolving customer needs and market dynamics, requiring companies to be agile and adaptable.

Successful implementation of business models often hinges on effective collaboration with key partners and stakeholders across various industries and sectors.

Cultural alignment and strategic alignment are critical factors that companies must consider when developing and deploying new business models in diverse international markets.

2. Business model concept varies but is generally a framework that details how a company creates, delivers, and captures value. Definitions emphasize different aspects:

- strategy reflection (the business model is the reflection of an implemented strategy);
- flow architecture (it is the architecture of goods, services, and information flows);
- value logic (it illustrates how value is created and provided to customers);
- schematic description (the business model shows how the company operates).

Two primary approaches to business model definition are:

- outside-work approach, which focuses on creating value for customers;
- inside-work approach, that focuses on improving internal company activities.

Business models can be classified into several typologies: shop-keeper model; company-specific models; MIT archetypes; Chesbrough's framework; Timmers' online models; Christensen's typology and other.

Approaches to developing business models include: cost minimization via innovation; product development; marketing and management innovations.

3. A business process is a series of interconnected steps aimed at achieving a specific organizational goal.

Types of business processes are classified as transactional, supporting, and management processes, each serving distinct functions within the organization.

Business process modeling, optimizing, and re-engineering are essential for improving efficiency and performance. Various methodologies include: DFD, ARIS, BPMN, UML, IDEF.

Business process optimization plays a pivotal role in enhancing operational efficiency and maximizing value creation within international business models. Continuous improvement and reengineering of business processes are necessary to stay competitive and responsive to changing market conditions and customer demand.

Leveraging advanced technologies and data analytics can empower companies to streamline business processes, enhance decision-making, and drive innovation within their international business models.

Companies must prioritize customer-centricity and value creation throughout the business model development process to foster long-term relationships and loyalty in international markets.

Strategic foresight and proactive risk management are crucial for companies navigating the complexities of international business environments and mitigating potential challenges and disruptions.

Key Terms

Business model - a conceptual framework that outlines the logic and structure of how a business operates, creates value, and generates revenue.

Business process - a range of interconnected steps to reach an organisation goal within its existing structure.

Business process doers- a cross-functional team (specialists of different functional spheres).

Business process modelling - a schematic structural reflection of business activities or functions within a company.

Business process optimising - a strategical planning concept aimed at partial change of business processes to increase sale efficiency.

Business process re-engineering - a total redesign of business processes after their thorough analysis.

Business process owner - a responsible person managing resources that are necessary to implement the business process.

Cost model - a structure and allocation of resources, expenses, and investments required to operate a business and deliver its value proposition.

Customer segment - sistinct group of customers or market segments that a company targets with its products or services based on their specific needs, preferences, and characteristics.

Income model - mechanisms through which a company generates revenue and captures value from its products or services.

Key partners - external entities or organizations with whom a company collaborates or forms strategic alliances to enhance its value proposition and capabilities.

Key resources - critical assets, capabilities, and resources required for delivering the value proposition and operating the business effectively.

Management process - a process focused on measuring and controlling activities to ensure the proper performance of production and sales.

Supporting process – an internal process and function within an organization that support the main business activities without directly generating value for final customers.

Transaction process- a process that are part of the core activities generating company value, create added value for customers by producing goods or services and aim to achieve company business goals, such as acquiring additional profit and income sources (e.g., orders and customer support, management of bank accounts).

Value proposition - a unique combination of goods, services, and benefits that a company offers to satisfy customer needs and differentiate itself from competitors.

7. ORGANIZATIONAL CULTURE OF INTERNATIONAL COMPANIES

7.1. Concept of Corporate Culture

Strategy and culture are the most important factors for enhancing organizational efficiency. Strategy defines the formal logic for the company's goals and the activities of its personnel. Culture defines goals through values and beliefs, directing employee activities through shared commitments and group norms.

Organizational culture is the informal social order of the organization; it shapes employees' attitudes and behavior in a consistent way.

The impact of culture on the success of a company manifests in:

- when aligned with strategy and leadership, a developed culture enhances organizational performance;
- in the case of mergers, developing a new culture based on the complementarity of strengths can accelerate integration and create added value;
- a strong culture can be a significant obstacle if it is not aligned with the strategy.

The features of organizational culture are:

- sharedness. Culture is a group phenomenon. It is reflected in shared behavior patterns, values, and most generally, through group norms and expectations – through informal rules. Cultural norms determine what is encouraged, disapproved of, accepted, or rejected within the group of employees;
- pervasiveness. Culture permeates all levels of the management hierarchy. The "logic of actions" and employee motivation are determined by organizational culture;
- stability. Culture develops through significant events of collective life and group learning. Its stability is partly explained by B. Schneider's "attraction-selection-attrition" model: people are attracted to organizations with traits similar to their own; organizations tend to select individuals who "fit." As a result, culture is a social pattern resistant to change and external influences;

- instinctiveness. People recognize and respond to culture instinctively.

Elements of organizational culture include core values; quality of personnel interactions, communication, office space organization, training, and more.

Three levels of organizational culture are distinguished: surface level, intermediate level, and deep level. The surface level of organizational culture consists of people's behaviors, rituals, emblems, design, uniforms, language, and slogans. The intermediate level comprises ingrained values and beliefs. The deep level is represented by the organization's philosophy.

7.2. Types of Organizational Culture

Organizational culture is defined by two dimensions:

- interaction among people (significant independence – significant interaction);
- response to change.

In cultures with significant independence, autonomy, individual actions, and competition are valued. The value of integration, coordination of group work, and relationship management are characteristic of a company's culture with significant personnel interaction.

Organizational cultures that value stability and adherence to rules use rule compliance control and hierarchy. Organizational cultures that are open to change prioritize innovation, flexibility, and forward-thinking.

Spencer S. at al. identify 8 organizational culture styles (fig. 7.1):

1) caring culture;
2) purpose culture;
3) learning culture;
4) enjoyment culture;
5) results culture;
6) authority culture;
7) safety culture;
8) order culture.

Each culture style has its strengths and weaknesses.

Caring culture is characterized by mutual trust, willingness to cooperate, teamwork, and employee commitment.

Advantages of a caring culture: improving teamwork, engagement, communication, trust, and a sense of belonging.

Disadvantages of a caring culture: excessive emphasis on agreement hinders consideration of alternatives, stifles competition, and slows decision-making.

Purpose culture is based on altruism, idealism, and employees' desire to contribute to long-term benefits.

Advantages of a purpose culture: diversity, sustainable development, social responsibility.

Disadvantages of a purpose culture: excessive focus on long-term goals and ideals impedes the fulfillment of practical and current tasks.

Learning culture is characterized by exploration, creativity, and innovation.

Advantages of a learning culture: generation of innovations, flexibility, and learning.

Disadvantages of a learning culture: constant learning and exploration cause dispersion and inability to capitalize on existing advantages.

Enjoyment culture is formed by encouraging employees to work through fun and humor.

Advantages of an enjoyment culture: employee enthusiasm, commitment, and creativity.

Disadvantages of an enjoyment culture: lack of discipline, issues with subordination and coherence.

Results culture focuses employees on high productivity, success, and professional performance of duties.

Advantages of a results culture: task completion, creation of opportunities, and achievement of goals.

Disadvantages of a results culture: communication problems, increasing stress level, and employee anxiety.

Authority culture is based on control, competition, and strict hierarchy.

Advantages of an authority culture: rapid decision-making and the ability to respond to threats.

Disadvantages of an authority culture: conflicts and a hazardous psychological work environment.

Safety culture focuses on planning and cautious actions by the company and employees.

Advantages of a safety culture: risk management, stability, and the integrity of the company.

Disadvantages of a safety culture: bureaucratization and inflexibility of the company.

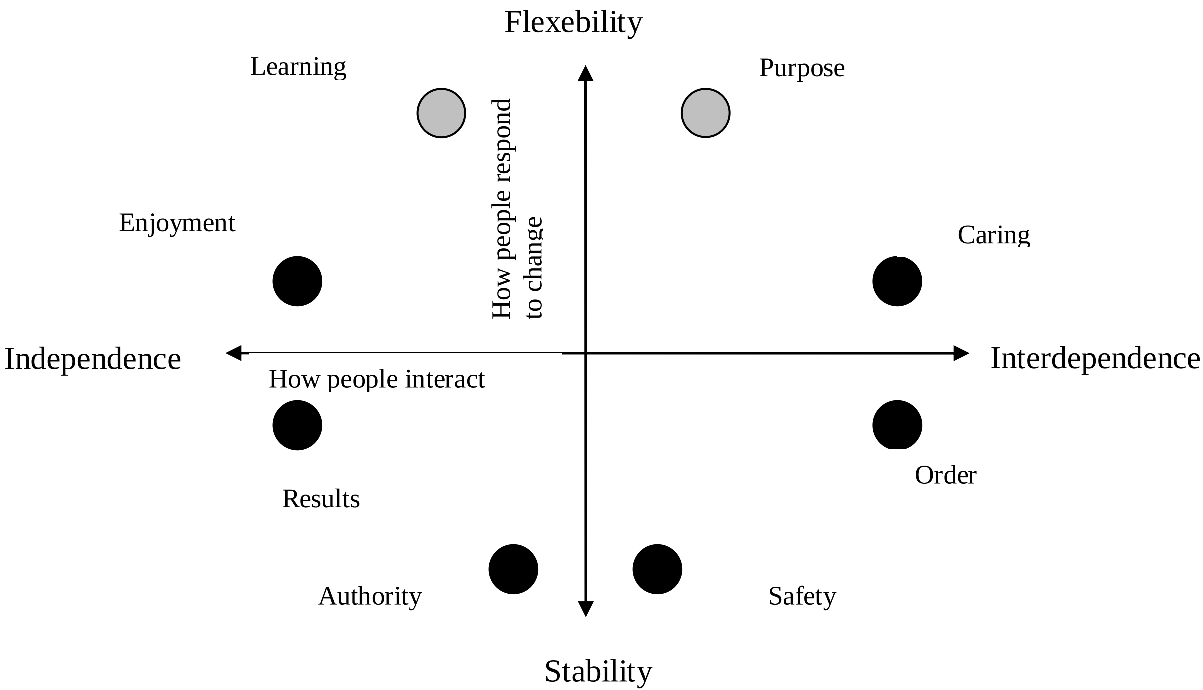

Fig. 7.1. Types od organizational culture

Order culture is based on organizational structure and common norms, where employees are united by interaction and traditions.

Advantages of an order culture: operational efficiency and reducing number of conflicts.

Disadvantages of an order Culture: reducing of creativity and organizational flexibility.

Organizations, when forming culture, can use several styles. Culture styles that are closer to each other on the diagram (such as safety and order, learning and enjoyment) coexist more easily and effectively.

As an organization develops, its culture changes. Cultural change is linked to the emotional and social dynamics of people within the organization. The following practices influence the effectiveness of culture development/change:

- formulating the desired culture;
- selecting and developing leaders who meet the requirements of the target culture;
- discussing organizational culture and emphasizing the importance of changes;
- supporting the desired change in organizational culture through changes in organizational structure.

The creation or enhancement of culture begins with an analysis of the current situation and open discussion within the organization. It is necessary to assess the alignment or misalignment of the company's organizational culture with current or anticipated business conditions. Cultural changes can be formulated in accordance with business objectives as well as the organization's aspirations. Leaders act as catalysts for cultural change within the organization, promoting it at all levels and within employee groups.

To bring about a change in overall organizational cultural norms, it is essential to discuss changes with employees and stakeholders (presentations for investors, structured group discussions, discussions on the internal social internet network). As a result, positive feedback is formed, and the new culture is accepted.

The desired culture and strategy should align with the company's organizational structure (degree of decentralization, training practices, performance management).

Organizational efficiency can be enhanced through cultural changes. At first stage the existing organizational culture is analyzed (traditions, values, leadership culture style, team dynamics). The target model and culture style are determined based on an analysis of the company's external and internal environment at the second stage. At the next stage the list of methods for forming the desired changes is developed (leadership alignment, organizational communication, organizational structure management, etc.). The last stage deals with implementation of cultural changes and monitoring the effectiveness of these changes.

To determine the target culture, cultural goals are formed. Cultural goals align with the company's strategy and reflect the requirements of the external business environment.

The context (region, industry, strategy, leadership, organizational structure) is important for assessing the strategic effectiveness of organizational culture. The values of regional and national cultures, in which the company operates, can influence the organization's behavior patterns. Companies operating in countries with a high degree of institutional collectivism (as defined by G. Hofstede: characterized by group-level evaluation and encouragement of collective resource distribution), such as France and Brazil, have cultures that emphasize the value of order and safety. Companies in countries with low uncertainty avoidance (open to ambiguity and future uncertainty), such as the USA and Australia, place more emphasis on learning, purpose, and enjoyment.

Organizational culture adapts to the needs of the industry environment. Organizational cultures in financial services often focus on safety and risk management. Nonprofit organizations are more oriented towards purpose, enhancing their mission commitment through alignment of employee behavior.

Culture supports strategy. For example, results and caring cultures are characteristic of companies implementing differentiation and cost minimization strategies. However, companies focusing on differentiation may use enjoyment, learning, and purpose cultures (which stimulate innovation). Organizations adhering to cost minimization strategies mainly form order and authority cultures (helping to maintain operational efficiency and low costs). Companies implementing a market retention strategy choose a learning culture. Order and safety cultures are used by companies undergoing restructuring.

The character and behavior of the CEO and top managers significantly impact the organization's culture, as they are role models for adhering to company rules, shaping behavior for others to follow.

There is a bidirectional relationship between culture and the organizational structure of the company. Organizational structure is mostly shaped by organizational culture. Deliberate selection of the organizational structure can lead to culture formation. However, culture is harder to change, so structural changes should align with the desired culture.

Topical questions

1. Explain the essence of the concept of "organizational culture."
2. How does culture influence the success of a company?
3. How are the culture and strategy of a company interconnected?
4. What levels of organizational culture are distinguished?
5. By what dimensions is organizational culture characterized?
6. Name the characteristic features of organizational culture.
7. What elements of organizational culture are distinguished?
8. What practices determine the effectiveness of culture development/change?
9. What organizational culture styles are identified by S. Spencer?
10. What is the relationship between culture and the organizational structure of a company?

Test

Answer "Yes" or "No"

1. Organizational culture is the informal social order of the organization; it shapes attitudes and behaviors in established ways:
A) yes;
B) no.
2. The deep level of organizational culture is formed by people's behaviors, rituals, emblems, and design:
A) yes;
B) no.
3. Cultural change is associated with the emotional and social dynamics of people within the organization:
A) yes;
B) no.
4. A learning culture is characterized by research, creativity, and innovation:
A) yes;
B) no.
5. An authority culture is based on organizational structure and general norms; employees are united by interaction and traditions:
A) yes;
B) no.
6. Leaders are catalysts for cultural change in the organization; they promote it at all levels of the company:

A) yes;

B) no.

7. In cultures with significant independence, autonomy, individual actions, and competition are valued:

A) yes;

B) no.

8. Organizational effectiveness cannot be improved through cultural changes:

A) yes;

B) no.

9. Culture does not support strategy:

A) yes;

B) no.

10. There is a two-way connection between culture and the organizational structure of the company:

A) yes;

B) no.

Answers: 1) А; 2) Б; 3) А; 4) А; 5) Б; 6) А; 7) А; 8) Б) 9) Б; 10 А.

Choose correct answers

1. The most general way culture manifests is through:

A) formal rules;

B) code of culture;

C) informal rules;

D) duties.

2. In cultures with significant independence, the following is not valued:

A) autonomy;

B) independent actions;

C) competition;

D) hierarchy.

3. Organizational cultures open to change prioritize:

A) hierarchy;

B) flexibility;

C) autonomy;

D) clear organizational structure.

4. Values and beliefs constitute the following level of organizational culture:

A) surface;

B) deep;

C) intermediate;
D) philosophical.
5. The philosophy of an organization forms the level of culture:
A) intermediate;
B) surface;
C) deep;
D) learning.
6. B. Schneider's "Attraction-Selection-Attrition" model partially explains this feature of organizational culture:
A) commonality;
B) stability;
C) deep penetration;
D) instinctiveness.
7. A strong culture can be a significant obstacle if it is not aligned with:
A) leadership;
B) strategy;
C) workers;
D) external contractors.
8. Which organizational culture is characterized by research, creativity, and innovation?
A) goal culture;
B) results culture;
C) enjoyment culture;
D) learning culture.
9. Mutual trust, teamwork, and employee commitment characterize the culture of:
A) enjoyment culture;
B) caring culture;
C) learning culture;
D) purpose culture.
10. Control, competition, and rigid hierarchy are the basis of:
A) results culture;
B) safety culture;
C) authority culture;
D) Order culture.

Answers: 1) C; 2) D; 3) B; 4) C; 5) C; 6) B; 7)B; 8) D; 9) B; 10) C.

Cases

1. *Project for Creating an Online Store*

This IT project was undertaken in the late 1990s, during the dot-com boom. A company, which operated with mail orders and had a large catalog sales department, decided to create an online store to make its products available globally. A back-office system was set up to handle payments and organize product delivery. The company also had an inventory control system and a department for telemarketing. However, they lacked an internet-based sales system, meaning an external interface. Creating this interface was necessary so that customers could select products from the catalog, check their availability, make payments, and order delivery.

A program was developed that included a series of projects to create the missing system components. The external interface was ready by the specified deadline, and the store's services had already been advertised, but the system did not function properly. The store could not launch on time. The consequences could have been damaging: the company's image would suffer, and they would lose the competitive advantage of timely product market entry.

After a brainstorming session, an unconventional solution was reached: to use a manual data entry system to transfer information from the internet to the telemarketing system. Administrative staff could print out orders and inquiries and enter them into the back-office system. The staff could also input customer responses into the online store system, so they could then be relayed to the recipients.

This solution was not cheap, but it could be implemented very quickly, saving time on creating the necessary component that connected all system parts. As a result, the organization maintained its reputation and met the market entry time for the products. The project manager gained a reputation as a hero who saved the project.

Case questions:

1. What is the role of the human factor in the company's functioning?
2. What mistakes were made in the process of creating the online store?
3. How could the crisis in the company's operations have been avoided?

Chapter Summary

1. Organizational culture is the informal social order of an organization, shaping employees' attitudes and behavior through shared values and beliefs. When aligned with strategy and leadership, culture enhances organizational performance; misalignment can hinder success

2. Culture is a group phenomenon reflected in shared behavior patterns and norms. It influences all levels of the management hierarchy, guiding actions and motivations. Culture develops through significant events and group learning, becoming resistant to change. People instinctively recognize and respond to organizational culture.

3. Cultures vary based on interaction among people (independence vs. interaction) and response to change (stability vs. flexibility). Eight styles include caring, purpose, learning, enjoyment, results, authority, safety, and order, each with its strengths and weaknesses.

4. Process of changing organizational culture start by analyzing the current culture, then define the desired culture and align it with the company's strategy. Then it develops methods to promote cultural change, such as leadership alignment, organizational communication, and structural adjustments. Last stage includes continuously monitor and assess the effectiveness of cultural changes to ensure they enhance organizational efficiency and align with business goals.

Key Terms

Deep level of organizational culture **-** organization's philosophy.

Group norms **-** informal rules and expectations that govern the behavior of members within a group.

Instinctiveness **-** the natural and automatic recognition and response of employees to cultural cues within the organization.

Intermediate level of organizational culture **-** ingrained values and beliefs.

Organizational culture **-** the informal social order of the organization; it shapes employees' attitudes and behavior in a consistent way.

Organizational structure **-** the formal arrangement of roles, responsibilities, and relationships within an organization that supports its culture and strategy.

Pervasiveness **-** the degree to which culture influences all levels of an organization, affecting actions and motivations throughout the hierarchy.

Sharedness - the extent to which culture is a collective phenomenon, reflected in common behavior patterns and norms among employees.

Surface level of organizational culture - people's behaviors, rituals, emblems, design, uniforms, language, and slogans.

Values and beliefs - core principles and standards that guide behavior within an organization.

Stability - the resilience and continuity of culture, developed through significant events and group learning, and resistant to change.

8. COMMUNICATIONS OF INTERNATIONAL COMPANY

8.1. Concept and Types of Business Communications

Communications of international company refer to a set of measures aimed at building, developing, and maintaining the company's image and status among consumers, partners, and society as a whole, with the aim of realizing the mission and goals of the business entity.

Features of business communications include:

- reproducibility and equivalent potentiality, forming stable relationships between the entity and the external environment;
- systematic nature, defining the possibilities of developing the company's communication strategy based on planning principles and predictability;
- temporal repeatability.

The communication strategy of an international company is a set of systematized periodic communications with the target audience, developed based on the company's overall strategic goals and mission.

The system of business communications comprises elements determined by the goals and organizational structure of the international company, the content of informational messages, channels of their transmission, and the development of the communication strategy.

Functions of business communications include:

- informative (conveying information);
- interactive (interaction with counterparties, influencing beliefs and intentions);
- perceptive (establishing understanding between partners based on a certain perception through business communication);
- expressive (transforming the character of emotions and expressions during business communication);

- connecting/bridging (processes of conveying, exchanging informational messages, and other types of information implemented in all types of business activities);

- discursive (stable activity aimed at legitimizing the company and its activities through negotiations in the process of communication).

Features of international business communications include:

- placement of individual communication elements in different parts of the world;
- distance;
- influence of different cultures;
- time difference;
- significant communication costs.

Communications are divided into upward and downward.

Upward communications include:

- feedback;
- assistance to lower-level managers from higher-level managers.

Downward communications include:

- task setting;
- provision of information.

The tasks of business communications system include:

- analysis of international company communications.;
- formation of business communications concept;
- thematic development of business communications;
- implementation of business communications;
- quick response and change of business communications;
- evaluation of the effectiveness of conducted business communications.

The substantive tasks of business communications system are formed in the context and include:

- brand formation;
- development of communications with representatives of the target audience, with the target audience in general;
- formation of an atmosphere in the team and a non-aggressive environment conducive to the company's functioning;
- dialogue with the international community;
- filtering out false information, combating rumors;
- tracking state policy, global economic trends, international situation;
- formation of a loyal environment for the company;
- finding opportunities for the company;
- implementation of crisis communication measures.

Models of business communications are formed in terms of two approaches:

- classical approach developed by J. Grunig and T. Hunt. According to the classical approach, models of business communications are classified by chronological criterion and directions of information flow between model elements;

- classification of models of business communications by priority element. According to this classification, models of information, persuasion, and dialogue are distinguished.

Informational business communications focus on the subject, target audience(s), methods, and channels of communication transmission, *persuasive business communications* - on content, *dialogical business communications* - on the formation and development of relationships.

The process of business communication is illustrated in aigure 8.1.

There are barriers to international business communications:

1) language barriers;
2) perception barriers;
3) cultural influence (cultural values);
4) non-verbal communication.

8.2. Units of Communication

Communication consists of communicative acts (units of communication) involving communicators (sender and receiver).

Source of communication (sender, addressor) - the person, group, or organization generating the message.

Receiver (addressee)- the person or group of people receiving the message.

Encoding - the process of representing the idea the communication source wants to convey to the receiver using codes or symbols.

Codes - symbols/signs that transform the communication idea into a language understandable to the receiver. Codes can include words, speech tempo, language style, visual images, smells, sounds, colors, and gestures.

Message (What) - the encoded idea, the content that the source communicates to the receiver.

Decoding the message - the transformation of the message into a language and symbols understandable to the receiver. The decoding processes depend on the receiver's personal perception, ability to understand and interpret the codes, and worldview.

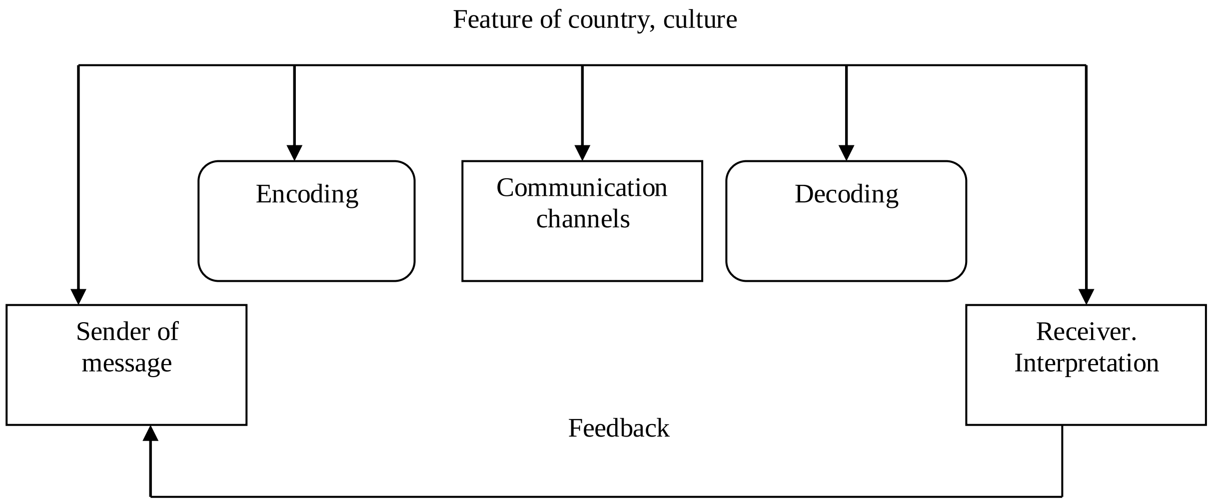

Fig. 8.1. Business communication зrocess

The result of communication is usually expressed in the following ways:

- change in the receiver's knowledge;
- change in the receiver's perceptions, attitudes, and beliefs;
- change in the receiver's behavior.

Forms of communication:

- written form;
- oral form;
- visual form, etc.

Forms of communication differ from each other by the specific systems used to encode the message.

8.3. Cultural Specifics of Business Communications

Different cultures have unique social and cultural patterns, or scripts, for nonverbal behavior. A company partner representing a specific culture is well-acquainted with its rules and norms, which are reinforced by these scripts, and usually acts in accordance with them.

For example, American culture is known worldwide for valuing and encouraging smiles on people's faces, even in situations where the individual does not feel positive emotions. The purpose of this behavior is to demonstrate to another person, even a complete stranger, that the encounter is pleasant. American communicative smiles are active in nature, often containing a component in their semantic structure that reflects a moral obligation: "I am willing to do something good for you".

In Japanese culture, it is considered proper behavior for the recipient not to see negative emotions on someone's face, as it may also make them feel bad. Thus, while one of the primary functions and tasks of an American smile is to establish and maintain normal communication, the main function of a Japanese social smile is protective, aimed at "preserving" the feelings of the other person.

There are types of misinterpretation in nonverbal communication across cultures:

- incorrect interpretation;
- incomplete interpretation;
- excessive interpretation.

Misunderstanding between representatives of different cultures when reading and decoding nonverbal communicative acts.

For example, the gesture of waving a hand ("one-time shaking of the hand from top to bottom") in Slavic gesture systems signifies a refusal from the person gesturing, expressing that they are giving up hope or expectations related to someone or something. Meanwhile, in Central and South American Spanish-speaking countries such as Argentina, Venezuela, Cuba, or Uruguay, this kinetic form is accompanied by words translating to "That's good!" or "How good!", giving the gesture a completely different meaning. In Peru, this gesture is accompanied by words meaning "Oh, darn, I made a mistake!", while in Chile, it means "Can you imagine what's happening!". In Nicaragua, Panama, and Ecuador, this gesture is associated with women and children, accompanied by phrases like "Something will happen".

Incomplete interpretation is often associated with the omission of nonverbal cues in the communicative act. For example, a person may not notice a gesture at all or may notice it but not pay attention to it, mistakenly considering it unimportant.

To some extent, the opposite is the case of excessive interpretation (or over-interpretation) of a gesture, attributing meaning to it that the communicator do not intend.

The effectiveness of business communication is determined by factors such as:

- attractiveness. There are objective grounds for perceiving and understanding a person based on the appearance. Details of a person's appearance can convey information about their emotional state, attitude towards others, and self-perception in a given communication situation. Attractiveness or beauty are subjective concepts, depending on the existing ideal of beauty in a given culture.

- attitude towards the sender. It is important to consider the attitude of the communication partner towards the sender. People who have a good attitude towards the sender appear significantly better than those who have a negative attitude. This factor manifests in feelings of sympathy or antipathy, agreement or disagreement with the conveyed message. The basis of this factor lies in the notion of so-called subjective groups, which exist only in the mind (people of the same professional group, people living in a certain area, etc.).

The influence of these factors is constantly felt in the process of perceiving information during communication, although the role and significance of each factor vary in different situations.

8.4. Intercultural Communicative Competence

Intercultural communicative competence (ICC) refers to the ability to engage in effective communication in intercultural contexts.

Milton Bennett's model proposes six stages of intercultural sensitivity:

1. Denial. Individuals deny the existence of cultural differences and may isolate themselves physically or psychologically from other cultural groups.

2. Defense. People acknowledge the existence of cultural differences but protect themselves from them as they perceive these differences as threatening to their identity.

3. Minimization. This stage involves recognizing cultural differences but simultaneously minimizing their impact on one's own life. One way individuals do this is by universalizing cultural differences.

4. Acceptance. Cultural differences are not only acknowledged but also respected. Respect is demonstrated first at the level of behavioral manifestations of cultural differences and then at the level of cultural values upheld by different groups.

5. Adaptation. Individuals at this stage adapt to cultural differences and acquire new skills to establish relationships and communicate with members of other cultures. Empathy, the ability to feel the emotions and experiences of others, is one such skill. Another skill is pluralism, which involves understanding the philosophy of pluralism (multiplicity) in values, ideas, and attitudes, creating numerous cultural contexts that incorporate their understanding of multiplicity and differences.

6. Integration. This stage involves incorporating pluralism as a philosophy and a conscious understanding and evaluation of cultural differences from the context in which they occur. Differences are assessed based on multiplicity and context, rather than from an individual cultural perspective. This level of integration may lead to constructive marginality, where individuals can mentally inhabit the borders of different cultural systems, adequately engaging with and departing from them according to the social context.

Examples demonstrating cultural and social differences in action:

1) Spanish company agreed with a Mexican company to sell a large batch of champagne corks, but made the mistake of dyeing them burgundy, which turned out to be the color of mourning in Mexican culture - the deal fell through;

2) Peter Ustinov, an English writer, artist, director, and public figure, describes a conflict of cultures that occurred on the set of an English film in Italy between Italian and English workers when the latter tried to meet the demands of their culture and trade union in Italian conditions (the English workers' union, according to English cultural tradition, demanded a mandatory tea break). Accordingly, work was interrupted for tea during pre-set hours, even though the heat was nearly forty degrees and cold drinks were always available. The Italian workers were extremely surprised;

3) company exporting American dishwashers to Switzerland and advertising them as machines that save time and energy for more enjoyable leisure time failed due to poor adaptation of the advertisement to the national character of the Swiss. After conducting research, the company found that Swiss housewives considered it their duty to work at home as much as possible to keep the family in ideal comfort and cleanliness. Advertising such machines caused Swiss housewives subconscious feelings of guilt.

The company created new advertising that explained to housewives the benefits of dishwasher machines in terms of hygiene. Such advertising worked well;

4) in Latin America, Marlboro cigarette advertising does not work: the cowboy, a man on a horse, is representative of the poorest people who can only afford the cheapest and therefore low-quality cigarettes.

5) the "Coca-Cola" corporation, seeking to make its name a symbol of the younger generation, adjusted the product name in some countries to account for their national, psychological, and linguistic characteristics. For example, for the Muslim world, the drink "Salam-Cola" appeared, in the name of which national and religious subtleties are taken into account ("Salam" translates from Arabic as "peace"). In China, the drink is called "Koku-Cola," which translates as "happiness in the mouth." The taste of these drinks is absolutely the same, but the names take into account certain national, cultural, and mental peculiarities.

8.5. Commercial Negotiations with Foreign Partners

Negotiations with foreign partners, methods of negotiations

There are several ways to conduct negotiations depend on the using of various means of communication:

- through correspondence (regular mail, email, Skype);
- by phone;
- face-to-face meetings.

Correspondence allows for a detailed presentation of all terms of the proposal or request for the desired goods, sending standard sales conditions, a draft contract, catalogs, brochures, relevant technical documentation, as well as providing samples. This method is the cheapest but it is quite slow, especially when corresponding with distant counterparts.

Fax, email, Skype, Zoom, Google Meet offer the possibility of more efficient communication.

Negotiating by phone is considered the best method because it saves a lot of time. Conducting agreements over the phone, i.e., orally, is reflected in the Vienna Convention. Commercial phone negotiations need to be prepared in advance to conduct them quickly and efficiently.

Face-to-face negotiations require significant preparation and allow for the most immediate resolution of any issues. Direct communication increases the importance of psychological factors. Partners see and hear each other. Each of them gets the opportunity to closely study the counterpart, better understand the other party's position, try to understand or anticipate the intentions of the counterpart.

Consideration of the peculiarities of business culture in different countries in international business

International business is effective if the peculiarities of the business culture characteristic of the country of the potential partner are taken into account. International business is based on the ethical behavior of partners. The following provisions are used in the communication process:

- the seller (exporter) have to adapt to the culture and traditions of the buyer (importer);

- a company entering a new market have to adapt to local conditions and traditions (organize communications, consider cultural features in production of goods/provision of services);
- there are no good or bad cultures, there are different cultures.

Objectives of negotiations with foreign partners

Business negotiations differ in their content. Taking these circumstances into account, various negotiation tasks can be identified.

The purpose of the initial meeting is to establish contact, mutually acquaint with the nature of partners' activities, clarify the possibilities and interests of the other party, and inform them about their own capabilities. Subsequent meetings may be held to discuss specific projects of business cooperation, develop programs for the implementation of these projects.

When partners plan to conclude a specific agreement, the pre-contractual period of the negotiation process may aim to preliminarily clarify certain technical, transportation, financial issues and other conditions of the future agreement, further refine positions on various issues. Depending on the complexity of the planned agreement, this stage of negotiations can take place over a short period or be extended for several months. The most responsible negotiations are those aimed at concluding an agreement. They require thorough preparation and purposeful conduct. The successful result of such negotiations is the signing of a contract.

Further negotiations may involve discussions regarding the implementation of the agreement. In particular, questions about the process and stages of order execution may be discussed repeatedly, especially for complex equipment with a long manufacturing cycle. Delivery times may also be adjusted, conditions for the transportation of oversized equipment that quickly deteriorates, and the procedure for providing relevant documentation, payment for delivered goods, etc.

Developing a position and tactics for negotiations

The individuals conducting negotiations have to study the subject of discussion and adhere to the following recommendations:

- have a thorough knowledge of the specifics of the product, its properties, range, quality characteristics, technical parameters, production and consumption features;

- understand the problems of a specific product market, its market-forming factors, development trends, price dynamics;

- possess information about the foreign partner company, its officials and representatives involved in negotiations;

- study the psychological aspects of business communication, the psychological types of interlocutors, the peculiarities of the psychology of specific partners, be able to interest them, attract attention to oneself; persuade to achieve the desired result;

- be proficient in foreign languages of foreign partners;

- not focus solely on narrow specialized issues, demonstrate a broad outlook and possess proper erudition. Before the start of negotiations regarding the conclusion of major foreign economic agreements, organizations hold special meetings where a forecast-scenario of future negotiations is developed and a realistic position of the party is formed. Employees responsible for preparing and conducting negotiations participate in such meetings.

Organizational and technical preparation of negotiation

Regarding the organizational and technical aspects of negotiations conducted through direct personal communication, the following measures are necessary:

1. Determining the composition of participants in negotiations from the company: a senior official leading the negotiations, other participants according to their positions. It is advisable to maintain correspondence regarding the number and hierarchy of representatives from both sides.

2. Preparation of a room for negotiations. It is advisable for the hosting party to equip a dedicated room for negotiations.. If it is not possible to prepare such a room, the office of the organization's manager or their deputies can be used for negotiations.

3. Language of negotiations. If necessary, a qualified interpreter who knows the relevant language should be selected in advance. Utilizing the services of an interpreter is beneficial even when some participants in the negotiations are proficient in the foreign language.

4. Prior to the negotiations, prepare reference and promotional materials, brochures, catalogs, samples, and, if necessary, souvenirs to be presented to foreign representatives. It is also advisable to draft a contract project that can be handed to counterparts at any stage of the negotiations.

5. All participants in the negotiations have to adhere to established rules of business protocol and etiquette.

6. Negotiation plan. Developing a negotiation plan is necessary for organized and clear negotiations. It should include all topics for discussion based on the developed negotiation tactics. The negotiation plan may include alternative (backup) options that can be used if the foreign partner presents their counterarguments. Such a plan constitutes the commercial secret of the organization and should not be disclosed.

Documenting the results of negotiations

After the completion of each stage of negotiations with representatives of foreign firms (usually on the same day but no later than the next day), a record of the conversation is compiled. It includes the following information:

- surname and position of the representative from the company;
- surname and position of the foreign representative;
- surnames and positions of the company executives who authorized the meeting;
- place and time of the meeting, its duration (start and end times are indicated);
- persons present at the negotiations from both sides;
- souvenirs, if any, presented during the negotiations;
- language of negotiations;
- content of negotiations - the main part of the document;
- surname, position, and signature of the person who recorded the conversation;
- number of sheets on which the record of negotiations is made;
- signature of the person conducting the negotiations.

<u>Topical questions</u>

1. Concepts and types of business communications.
2. Units of communication.
3. Features of international business communications.
4. Objectives of business communications.
5. Models of business communications.
6. Barriers to international business communications.
7. Concept of intercultural communicative competence.
8. Factors influencing the development of a position during negotiations.

9. What is involved in the organizational and technical preparation of negotiations?

10. Considering the characteristics of business culture in different countries in international business.

<u>Test</u>

Answer "Yes" or "No"

1. Informational business communications focus on the subject, target audiences, and communication channels:
A) yes;
B) no.
2. Dialogic business communications focus on the content:
A) yes;
B) no.
3. Persuasive business communications form and develop relationships:
A) yes;
B) no.
4. The receiver is the person, group, or organization that generates the message:
A) yes;
B) no.
5. A message is an encoded idea, what is communicated to the receiver:
A) yes;
B) no.
6. Decoding a message is the translation of the message into the language of the receiver:
A) yes;
B) no.
7. The source of communication is the person or group receiving the message:
A) yes;
B) no.
8. Incomplete interpretation is the misunderstanding between representatives of different cultures when reading and decoding non-verbal communicative acts:
A) yes;
B) no.

9. Intercultural communicative competence is the ability to communicate effectively in a national context:

A) yes;

B) no.

10. The development and successful implementation of international business is impossible without understanding certain attitudes related to representatives of other countries and cultures:

A) yes;

B) no.

Answers: 1) A; 2) B; 3) B; 4) B; 5) A; 6) A; 7) B; 8) B; 9) B; 10) A.

Choose correct answers

1. Informational business communications:

A) focus on the subject, target audiences, and communication channels;

B) focus on the content;

C) establish and develop relationships;

D) develop the company's culture.

2. Persuasive business communications:

A) focus on the subject, target audiences, and communication channels;

B) focus on the content;

C) establish and develop relationships;

D) develop the company's culture.

3. Dialogical business communications:

A) focus on the subject, target audiences, and communication channels;

B) focus on the content;

C) establish and develop relationships;

D) develop the company's culture.

4. Upward communications do not include:

A) feedback;

B) assistance from higher-level managers to lower-level managers;

C) providing information.

5. Downward communications include:

A) feedback;

B) assistance from higher-level managers to lower-level managers;

C) providing information.

6. An encoded idea; what the source communicates to the receiver, is:

A) a letter;
B) communication;
C) a code;
D) a message.

7. A person or group of people who receive the message is:

A) a recipient;
B) a sender;
C) a decoder;
D) a encoder.

8. A person or organization generating the message is:

A) arecipient;
B) a sender;
C) a decoder;
D) a encoder.

9. Symbols or signs that transform an idea into a language understandable to the receiver are:

A) codes;
B) transcription;
C) an image;
D) a message.

10. Translating a message into the receiver's language is:

A) decoding;
B) transcription;
C) encoding.

Answers: 1) A; 2) B; 3) C; 4) C; 5) C; 6) D; 7) A; 8) B; 9) A; 10) A.

<u>Cases</u>

1. *Advertising Campaign "Saeco"*

The "Saeco" brand is an Italian manufacturer of coffee machines, coffee makers, coffee vending machines, as well as various accessories for them. Since 2009, it has been part of the "Philips" company. In one of the company's national branches, a decision was made to conduct an advertising campaign.

The goals for the internet advertising campaign were defined as follows: attracting quality traffic to the promo site, as well as organizing conversions (target actions) related to the purchase of coffee machines at offline points of sale.

Since the audience of users interested in purchasing coffee machines is quite narrow, the value of communication with each consumer is high. Besides those users who are already in the active search phase for a coffee machine, it was necessary to reach those who only intend to buy a coffee machine but have not yet taken active steps online.

The main task was to activate the need of the second group of users by increasing their knowledge about the product and stimulating their commercial demand. The company did not limit itself to workwith users who were already at the bottom of the sales funnel but also focused on pushing users from the middle part of the sales funnel to the bottom.

Through audience purchases, segments of users interested in coffee machines, coffee makers, and espresso machines were targeted with advertising. Traffic directed users to the main page of the promo site, where an image promo video was placed. User actions on the page were considered a trigger that allowed assessing the current interest in the product and the topic as a whole. Depending on whether the user launched the video, watched it partially, or watched it to the end, they were placed into a specific retargeting segment with separate advertising arguments.

If a user immediately left the site without taking any actions, it was assumed that this information or format was not optimal for them, and the program automatically transferred them to a segment conditionally called "reanimation" with a different advertising message. The user was given a rating – a non-target user. This is a "borderline" variant of a user when it is necessary to quickly understand whether it is worth continuing contact with them or turning off ad displays for them to optimize the budget. The user was excluded from displays to save the advertising budget if, even after the second attempt to communicate (transition to another page of the site through retargeting), they did not show interest.

If the video was launched but not watched to the end, the user was added to a retargeting segment conditionally called "reactivation." This meant that the current level of familiarity with the brand was insufficient for the user to move further down the sales funnel, and additional communications were necessary. If the next visit to the promo site by the user was unsuccessful (did not lead to actions – further familiarization with the product, purchase of the product), the user's rating was lowered, and they were transferred to the "reanimation" retargeting segment, where the last attempt at communication was made with different arguments.

A transition to one of the sections indicated that local success in communication with the user was achieved, and new knowledge about the product was obtained. The user was then transferred to a retargeting segment to the model selection page.

If the video was watched to the end or the user showed good post-click behavior, a decision was made to transfer the user to a retargeting segment where they were offered to make a conversion (action).

It is important that the company did not reject those users who did not take action after the first contact with the promo site. It was hypothesized that the first communication might have been "suboptimal" for various reasons, and another attempt at communication was made with different parameters.

What specific results did the implementation of such a simple scenario yield? 38% of users who came to the site with a general, unexpressed interest in the product were led to the conversion page through various retargeting segments. One of the factors of such success was the use of a trigger scenario, because:

- firstly, there was a gradual development of the user's knowledge about the product, and the message was changed if the previous message was ineffective;

- secondly, users with an unsuccessful first interaction were further pushed;

- the company also timely refused to show ads to those users who, after contacts with two different messages, did not show interest in the product.

It is worth noting that the behavioral trigger used in the advertising campaign is a specific case of trigger communication. Practically any parameters that can be recorded could be used as a "switch": viewing a specific page, the number of pages viewed, time on the site, any action taken by the user. However, triggers can also be based on an external event: weather, exchange rate, promotion duration, product availability, etc. A very interesting implementation of a trigger could be synchronizing the start of product displays to a unique user at the moment funds are credited to their bank account.

Case questions:

1. Describe the trigger communication scheme.

2. What are the advantages of using an advertising campaign with trigger communication?

3. In what cases is it impractical to use an advertising campaign on the Internet?

2. «*Coca-Cola*»

«Coca-Cola is one of the largest companies in the USA, the world's largest producer of syrups, concentrates, and non-alcoholic beverages. The company's products are sold in more than 200 countries. In Ukraine, the company is represented by the following brands: Coca-Cola, Coca-Cola Light, Fanta, Sprite, Nestea, Rich, Rich Fruit Mix, BonAqua, BonAqua Viva, and Burn. In 2007, workers at one of the Coca-Cola plants went on strike due to low wages.

Case questions:

1. Formulate rumors that might create a crisis for the company.

2. Using strategies for combating rumors, propose specific actions for the given situation.

3. Suggest measures to eliminate rumors when communicating with the media and company personnel.

3. *«Kraft Foods»*

Founded in the early 20th century by James Kraft, the company initially known as J.L. Kraft & Bros is the world's second-largest corporation in the production of packaged food products. Kraft Foods' products are available in 155 countries worldwide. In Ukraine, the company sells brands such as Milka, Toblerone, Alpen Gold, Carte Noire, Jacobs, and Maxwell House. In 2008, Kraft Foods found itself at the center of a "melamine scandal" in China: traces of melamine were found in dairy products produced at the Cadbury factory in Beijing, one of the companies within Kraft Foods. Due to this substance, 54,000 Chinese children fell seriously ill, and four of them died.

Case questions:

1. Formulate rumors that might create a crisis for the company.

2. Using strategies for combating rumors, propose specific actions for the given situation.

3. Suggest measures to eliminate rumors when communicating with the media and company personnel.

4. «*Procter & Gamble*»

The company was founded in 1837 by soap maker James Gamble and candle maker William Procter. The brand's primary production focus is household chemicals and cosmetics. Procter & Gamble produces goods under brands such as Fairy, Tide, Ariel, Lenor, Head & Shoulders, Pantene, Shamtu, Wella, Camay, Safeguard, OldSpice, HugoBoss, Dolce & Gabbana, Gucci, Mexx, Baldessarini, Blend-a-Med, Oral-B, MaxFactor, Gillette, Venus, Duracell, Braun, Folgers coffee, juices, and pet foods Iams and Eukanuba, among others.

In 2007, 2,200 dogs and 1,950 cats in the USA died from kidney failure. The cause was melamine, used by Menu Foods Inc. in the production of pet foods for several brands, including Procter & Gamble.

Case questions:

1. Formulate rumors that might create a crisis for the company.
2. Using strategies for combating rumors, propose specific actions for the given situation.
3. Suggest measures to eliminate rumors when communicating with the media and company personnel.

5. «*Johnson&Johnson*»

Johnson & Johnson was founded in 1886 by three brothers: Robert Wood Johnson, James Wood Johnson, and Edward Mead Johnson. The corporation's products include cosmetics, sanitary-hygienic goods, and medical equipment. Today, the brand has more than 230 subsidiaries, and its most famous trademark is the line of baby cosmetics Johnson's baby.

In the early 1980s, a scandal broke out related to product poisoning by the organization. The company became the target of extortion by an unknown killer who added cyanide to packages of Tylenol medicine. The perpetrator has not been found to this day.

Case questions:

1. Formulate rumors that might create a crisis for the company.
2. Using strategies for combating rumors, propose specific actions for the given situation.

3. Suggest measures to eliminate rumors when communicating with the media and company personnel.

6. «*Unilever*»

The company Unilever was founded in 1930 by the merger of the Dutch Margarine Unie and the British Lever Brothers. Unilever is a leading producer of household chemicals, food products, and perfumes. The organization owns a vast number of brands, many of which are well-known in Ukraine. Food products include Lipton, Brooke Bond, Бесіда, Crème, Bonjour, Hellmann's, and others. Household chemicals and personal hygiene products include Dove, Rexona, Axe, Timotei, Domestos, and Cif, among others.

The corporation does not always engage in fair competitive practices. For example, in 2011, Unilever was fined 104 million euros by the European Antitrust Committee for price collusion on laundry detergents with Procter & Gamble.

Case questions:

1. Formulate rumors that might create a crisis for the company.
2. Using strategies for combating rumors, propose specific actions for the given situation.
3. Suggest measures to eliminate rumors when communicating with the media and company personnel.

7. *The Role of Communications in Creating Valuable Innovations*

Innovation development groups formed without considering the factor of communicability face difficulties. Problems arise in perceiving common goals and utilizing each team member's strengths in the innovation development process. It takes time to build trust within the team **-** approximately 2 years.

In the 1980s, Honeywell's innovation project managers would transition to new positions for higher salaries before completing projects. As a result, innovative ideas remained unrealized due to the team's lack of cohesion and the absence of project managers.

Innovation activities also halt when innovators' relationships with the rest of the team are neglected. If developers want their ideas to be supported within the team, discussion, collective, and managerial sponsorship is needed during the "growth" stages. When a "disruptive" innovation is being developed, it is necessary to mitigate the behavior of potential opponents regarding the right to exist for old products or technologies.

Neglecting contacts with the core business managers led to the failure of the "Travel Gear" multifunctional boots idea, developed by Timberland. The boots were designed by the company's independent research department. The developers' concept was that the "Travel Gear" owner could travel with only one pair of shoes, using special inserts to adapt the boots to any conditions. In 2004, the idea won a "Business Week" award. However, the company's sales agents refused to sell the new model.

The climate within the innovation group is determined by the atmosphere around it. In the mid-1990s, Seagate Technology, a hard drive manufacturer, began to decline. Seven project centers developing innovative ideas did not cooperate but competed without discussing work problems. Attempts to unite specialists ended in failure. The company was losing market share. New managers Steve Luczo and Bill Watkins introduced new behavioral rules in the company, mandatory for everyone: they constantly changed work innovation groups and trained employees to work in teams. Only those technical employees with well-developed communication skills could lead innovation groups. These innovations allowed the company to create innovations and regain market share. Seagate's hard drives started being used in iPods and other new electronic devices.

Case questions:

1. What are the rules for working in a team?
2. Why were the "Travel Gear" boots not brought to market?
3. What role do communications play in the work of innovation units?

Chapter Summary

1. Communications in an international company involve measures to build, develop, and maintain the company's image and status among consumers, partners, and society to achieve its mission and goals. Key features include reproducibility, systematic nature, and temporal repeatability.

A communication strategy aligns with the company's overall strategic goals, involving periodic communications with the target audience.

The system of business communications includes elements like informational messages, transmission channels, and strategy development.

Functions of business communications consist of conveying information, interacting with counterparties, establishing understanding, transforming emotions, exchanging messages, and legitimizing the company through discourse.

2. International business communications are characterized by geographical spread, cultural influences, and communication costs. They are divided into upward (feedback, assistance) and downward (task setting, information provision) communications. The system's tasks of international business communications include analysis, concept formation, thematic development, implementation, response, and evaluation of effectiveness.

3. Models of business communications are based on information, persuasion, and dialogue, each with its focus. Barriers of international business communications include language, perception, cultural differences, and non-verbal issues.

4. Communication consists of acts involving a sender and receiver. The sender encodes an idea into a message using symbols or codes, which the receiver decodes. Codes can include words, images, sounds, and gestures. The result of communication is a change in the receiver's knowledge, perceptions, attitudes, or behavior. Communication forms include written, oral, and visual, each differing in encoding systems.

5. Cultural differences influence business communications, with each culture having unique scripts for non-verbal behavior. Misinterpretations can occur due to incorrect, incomplete, or excessive interpretation of non-verbal cues. Factors affecting communication effectiveness include attractiveness and the receiver's attitude towards the sender. Appearance, emotional state, and the subjective groups to which people belong influence perceptions.

6. Bennett's model outlines six stages of intercultural sensitivity: denial, defense, minimization, acceptance, adaptation, and integration. Each stage represents a deeper understanding and respect for cultural differences.

7. Negotiations can occur through correspondence, phone, or face-to-face meetings, each with its advantages and disadvantages. Effective international business considers cultural business practices and ethical behavior. Negotiation objectives vary from initial contact to concluding agreements and managing implementation. Preparation involves understanding the product, market, partner, and negotiation psychology.

Organizational aspects include selecting participants, preparing the negotiation environment, and adhering to business protocol. Documenting negotiations includes recording details of discussions and agreements to ensure clarity and accountability.

Key Terms

Codes - symbols/signs that transform the communication idea into a language understandable to the receiver (words, speech tempo, language style, visual images, smells, sounds, colors, and gestures).

Commercial negotiations - siscussions between businesses to reach agreements, conducted through various means such as correspondence, phone, or face-to-face meetings.

Communications of international company - a set of measures aimed at building, developing, and maintaining the company's image and status among consumers, partners, and society as a whole, with the aim of realizing the mission and goals of the business entity.

Communication strategy of an international company is a set of systematized periodic communications with the target audience, developed based on the company's overall strategic goals and mission.

Decoding the message - the transformation of the message into a language and symbols understandable to the receiver.

Encoding - the process of representing the idea the communication source wants to convey to the receiver using codes or symbols.

Intercultural communicative competence - an ability to engage in effective communication in intercultural contexts.

Message (What) - the encoded idea, the content that the source communicates to the receiver.

Non-verbal communication - communication without words, using gestures, facial expressions, and body language.

Receiver (addressee)- the person or group of people receiving the message.

Source of communication (sender, addressor) - the person, group, or organization generating the message.

System of business communications- a set of elements determined by the goals and organizational structure of the international company, the content of informational messages, channels of their transmission, and the development of the communication strategy.

9. TRANSPORT CORRIDORES. LOGISTICS OF INTERNATIONAL COMPANY

9.1. Transport Corridors. Elements of Transport Corridors
9.2. The Essence and Types of Logistics. International Transport Operations as an Object of Logistics Management

9.1. Transport Corridors. Elements of Transport Corridors

Transport connections play a vital role in the economic development of a region. On land, transport routes cover 35 million kilometers, with 78% crossing Western Europe, the USA, Canada, and Australia. Railways have the greatest length and frequency in the world's largest countries (e.g., China, the USA, Germany, etc.). Maritime transportation globally is provided by the maritime fleets of Panama, Liberia, the Marshall Islands, Hong Kong, and Singapore. Greece and Japan possess the largest commercial fleets. Of the world's 10 largest ports, 8 are in China, 1 in Singapore, and 1 in the Netherlands (Rotterdam). Inland water transport is most developed in countries with navigable rivers (e.g., the USA, China, Russia, Germany, the Netherlands, etc.).

One of the prerequisites for forming transport corridors is the existing Trans-European Transport Network within the EU.

The core of a transport corridor (TC) is the concentration of transport, freight, and passenger flows on highways with maximum capacity and high infrastructure levels, ensuring accelerated and cheaper freight and passenger transportation through economies of scale. An additional benefit arises when the corridor integrates multiple interacting modes of transport.

Transport corridors are divided into international and national.

International transport corridor (ITCs) connects two or more neighboring states and can pass through several transit countries, particularly to facilitate maritime trade for landlocked countries. The creation and development of ITCs are subjects of international agreements concluded in various world regions. Transport corridors have seen the most intensive development in Europe, with the parallel evolution of the EU transport corridor system (TEN-T, Trans-European Network-Transport) and the Pan-European TC system, mainly covering Central and Eastern Europe.

The most well-known Euro-Asian ITC is the TRACECA project. In North America, transport corridors are developed under the NAFTA agreement to support trade between Canada, the USA, and Mexico.

In addition to continental ITC systems, there are numerous regional projects and initiatives supported and implemented by individual countries or groups of countries.

National transport corridor is created within a single state. National corridors connect large cities or urban agglomerations (e.g., the Boston-Washington corridor in the USA or the Tokaido corridor in Japan). Shorter national TCs are also created to link seaports with nearby logistics centers or "dry ports." Many national transport corridors are components or branches of ITCs.

Depending on the goals of their creation, the level of interaction among interested parties, and the nature of regulating transport, trade, and economic activities, transport corridors can be classified as transit, trade, or development corridors.

The goal of creating a *transit corridor* is to ensure conditions for the unimpeded and economically efficient movement of vehicles in a specific direction. This primarily addresses transport-technological tasks related to the construction and modernization of communication routes, terminals, information systems, etc.

Transport trade corridors play the most crucial role in the logistics and supply chain transportation systems.

Transport trade corridor is a combination of transport and logistics infrastructure, as well as services coordinated by a national or international regional body to facilitate trade and transport flows between centers of economic activity and international trade ports.

Creating a trade corridor, in addition to the benefits of a transit corridor, involves the introduction of favorable customs, tax, and administrative regimes, along with the provision of a comprehensive range of additional logistics services to promote trade between regions or countries connected by the TC.

Development corridor is designed to play a systemic role in the economic and social development of the territories through which they pass. Their creation is linked to projects for the development of economic sectors and the social sphere of the respective regions.

Transit corridors are divided into three types:

- landbridge – a land connection between a port where cargo is delivered by sea and a port on the opposite coast of the continent, from where sea transportation continues;

- minibridge – a land connection between a port where cargo is delivered by sea and a destination on the opposite coast of the continent;
- microbridge – a land connection between a port where cargo is delivered by sea and an inland destination on the continent.

Transportation using "land bridges" was developed in Canada and the USA.

A characteristic feature of the organization of transportation via bridge systems is the use of a single tariff: goods are transported under a single bill of lading or other document; the distribution of income between sea carriers, who undertake door-to-door delivery, and land carriers, who are clients of the sea carriers, is detailed in the tariff.

Landbridge – this is a "sea-land-sea" scheme, meaning that the land section of container transportation (served by rail and/or road transport) connects two sea lines separated by a continent (e.g., the transportation of containers from Far East ports to North America's Pacific ports, where the containers are transferred to rail platforms and transported to the Atlantic ports of the USA or Canada, where they are loaded onto ships and delivered to ports in third countries).

Minilandbridge (minibridge) differs from a landbridge by the absence of the third component of the transport scheme, i.e., the transportation process involves sea transport from a port in one country to a port (e.g., goods are delivered by sea from Europe to American ports of the Atlantic Ocean and the Gulf of Mexico, and then by rail to the ports of the West Coast of the USA). The payment for transportation via the minibridge system is formed based on a through container tariff determined by sea carriers. The advantages of using the minibridge system compared to only sea delivery are expressed in the reduction of total transport time and a 30-40% decrease in the cost of transporting 1 ton of container cargo.

Microbridge system involves transporting goods by sea from a foreign port to a destination port, from where the goods are delivered by rail or road to inland points within the country. For example, multimodal transport from Far East ports through North American ports to inland points in the USA or Canada, or multimodal container lines of British and Northern European shipping companies to Middle Eastern countries through ports on the eastern coast of the Mediterranean Sea.

Major landbridge routes worldwide:

a) North American – serviced by the railways of the USA, connecting Pacific ports of the USA with American ports on the Atlantic coast and the Gulf of Mexico;

b) Canadian – serviced by the railways of the USA and Canada, connecting Northwestern ports of the USA and Canada with the ports of the Great Lakes;

c) Trans-Siberian – connecting Far Eastern ports of Russia with ports in the Baltic and Black Seas;

d) Mexican – connecting the Pacific and Atlantic coasts of Mexico, serviced by Mexican railways and road transport;

e) Israeli – connecting the Red Sea port of Eilat with the Mediterranean port of Haifa.

The landbridge system is used for transporting containers from Europe through the North American continent to Australia, from Japan and Southeast Asian countries to the East Coast of the USA and further to Europe, as well as for cargo transportation via the "Siberian Bridge." The "Siberian Bridge" is the shortest transport route between Europe and Japan (e.g., the route from Yokohama to Rotterdam via the "Siberian Bridge" is about 13,000 km; via the Suez Canal – about 20,700 km; via the Panama Canal – 23,000 km).

Transport corridors include transport communications that may be located on different routes but have common nodal points, ensuring a convenient choice of transport mode, its change during transportation, or a switch between different services of the same transport mode. Some corridors have a single route and are serviced by one type of transport. However, most corridors include communications of various transport types and alternative routes, as well as regional branches.

The nodal points of transport corridors are portals and hubs where the main transport flows converge. In most cases, transport corridors are based on rail and road transport communications interacting through intermodal terminals. In some cases, inland waterways or coastal shipping lines are included in the transport corridor. Ocean and air routes are not part of transport corridors, but seaports and airports are vital elements of the main transport corridors' portals.

Transport corridors are rarely created from scratch. Most are formed based on existing communications, which are modernized according to unified standards (allowable loads, dimensions, capacity, etc.), ensuring seamless through movement of transport vehicles. The parameters and capacity of terminals at the nodal points of corridors are chosen to ensure the smooth movement and intermediate storage of cargo units, the possibility of performing logistics operations for goods transportation, servicing vehicles, and more.

The most critical land transport corridors in the world include development axes (fig. 9.1).

Today, the Pacific and Atlantic Oceans are predominantly covered by intercontinental maritime routes (fig. 9.2). Panama and Egypt are special maritime countries. The Panama Canal facilitates cargo transportation from the Atlantic Ocean to the Pacific Ocean, and the Suez Canal connects the Red Sea and the Mediterranean Sea. Countries that serve as maritime hubs include those located along straits that connect seas and oceans (e.g., Denmark, Turkey, Argentina, and others).

Pan-European Transport Policy

The Pan-European Transport Policy is organizationally formalized in the documents of the transport authorities of EU countries and organizations. It includes the system of trans-European transport axes (Declaration of the Committee of Ministers of Transport, 1983), intermodal transport bridges (1st Pan-European Transport Conference, Prague, 1991), and the system of international transport corridors (2nd Pan-European Transport Conference, Greece, Crete, 1994). At the Crete Conference, the routes of the first nine European international transport corridors, which later became known as the "Crete Corridors," were finalized.

The Crete transport corridors in the railway network are shown in fig. 9.3. At the 3rd Pan-European Transport Conference held in Helsinki in 1997, the 2nd Crete international transport corridor was extended to connect with the Trans-Siberian Railway; the 9th Crete international transport corridor was extended with branches to Astrakhan and Novorossiysk. Additionally, the Northern Sea Route was included in the pan-European transport system, and the Volga-Don Canal was incorporated into the Euro-Asian transport corridor (TRACECA).

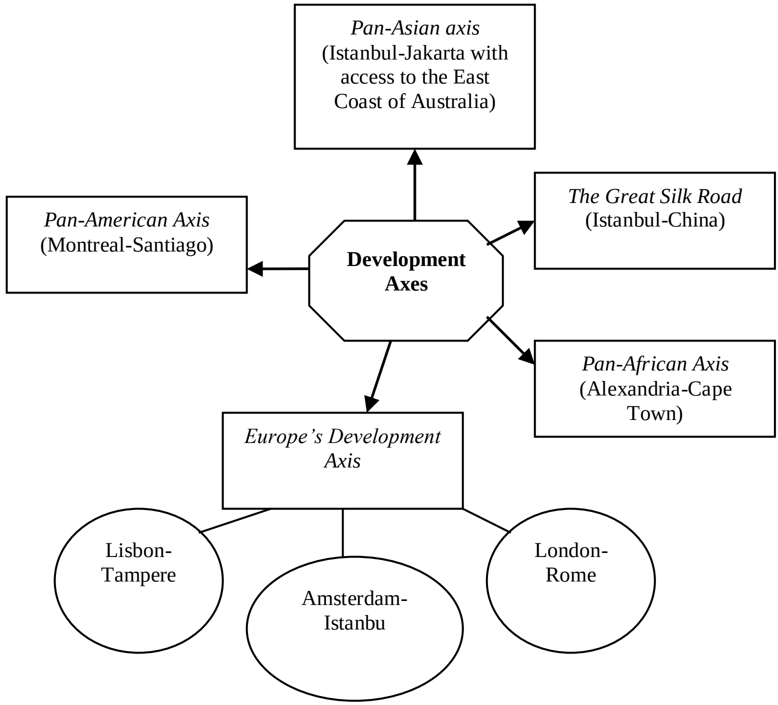

Fig. 9.1. Land transport corridors

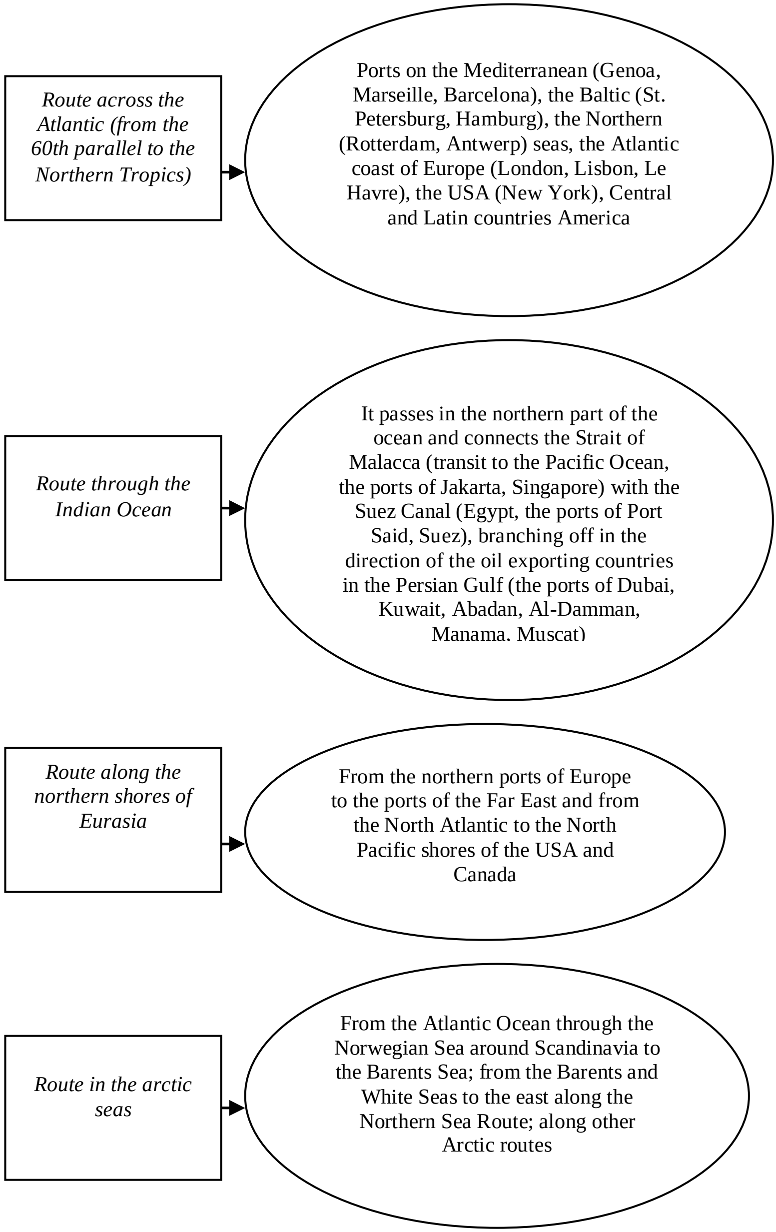

Fig. 9.2. World sea routes

The Crete transport corridors

- 1st: Gdansk - Warsaw - Minsk - Moscow
- 2nd: Berlin – Warsaw – Minsk – Moscow
- 3rd: Berlin – Dresden – Lviv – Kyiv
- 4th: Prague – Budapest – Bucharest – Sofia – Alexanrupolis – Istanbul
- 5th: Trieste – Ljubljana – Budapest (Bratislava) – Lviv
- 6th: Gdansk - Warsaw - Krako
- 7th: (water along the Danube) Vienna – Bratislava – Budapest – Belgrade – Reni – Izmail – Ust-Dunaysk
- 8th: Tirana – Sofia – Burgas – Varna
- 9th: Helsinki – St. Petersburg – Minsk – Moscow – Kyiv – Odesa (Chisinau) – Dimitrovgrad – Aleksanrupolis

Fig. 9.3. The Crete transport corridors

TRACECA is a transit "bridge" laid from European countries through the Black Sea ports, the Caucasus, and Central Asia to China.

9.2. The Essence and Types of Logistics. International Transport Operations as an Object of Logistics Management

Logistics is the management of the movement of material flows and related information from the initial source to the final consumer with minimal total costs.

Logistics is typically divided into the following types:

Procurement logistics. Its functional purpose includes:

- supplying and providing the company with goods, materials, raw materials, components, semi-finished products, etc.;
- storing goods;
- managing warehouse inventories depending on sales volume and planned production schedules;
- analyzing and controlling stock levels;
- organizing the ordering of goods;
- determining the optimal order size;
- searching for and selecting suppliers and subcontractors together with the management and technical specialists of the company;

Production logistics:

- loading the production with raw materials, materials, components, and their storage;
- synchronizing transportation processes within the production and technological processes;
- optimizing internal production technological routes;
- assisting in ensuring the continuity of production according to the production schedule and cycle/

Distribution (marketing) logistics:

- creating and implementing logistics schemes for distributor and dealer networks and promoting the product in domestic and foreign markets according to the company's marketing strategy, national legislation, and international trade and transport rules;
- storing goods, for example, in consignment warehouses;
- reducing the costs of product realization;
- studying and fulfilling delivery requirements;
- ensuring the delivery of goods to the specified place, in the required quantity, at the agreed time, of appropriate quality, in reliable packaging that withstands transportation and storage during intermediate warehousing and accumulation at sales points.

Transport logistics:

- ensuring the transportation of goods;

- minimizing transportation costs;
- finding optimal transportation routes;
- searching for and selecting carriers and forwarders;
- planning deliveries;
- passing customs clearance in the country of departure;
- ensuring a unified controlled delivery scheme for different shipments and types of transport under mixed (intermodal) transportation conditions;
- calculating transportation costs and delivery costs;

Information logistics:

- managing information flows related to material and financial flows;
- implementing the latest information technologies and integrated information automation systems in logistics processes;
- using information technologies in procurement, production, distribution, and transport logistics/

The starting point for the logistical justification of the transport-technological scheme for delivering goods from the seller to the buyer is the contract, which defines the transport conditions and the basic terms of delivery. The content of the transport conditions depends on the basic terms of delivery of the goods.

Transport conditions are an obligatory section of a foreign trade contract, which defines:

- terms of shipment;
- the place and procedure for transferring goods from the seller to the buyer;
- the names of border stations, ports, and transshipment points from one type of transport to another (intermodal transportation);
- the procedure for informing the seller or buyer about the arrival of transport vehicles at the points specified in the contract;
- loading and unloading standards;
- appointment of agents for servicing transport vehicles and forwarders handling goods at the points specified in the contract;
- the procedure for settlements under commission agreements with intermediaries;
- other conditions.

After agreeing between the buyer and the seller on the basis of delivery and transport conditions of the purchase-sale agreement, the development of the transport-logistics scheme for delivering the goods begins.

The efficiency and quality of the goods movement process largely depend on the intermediaries performing various transport operations from the moment the goods are prepared to the moment they are handed over to the buyer.

Such intermediaries can be:

- individuals;
- specialized enterprises;
- companies, associations, corporations engaged in transport-forwarding services (TFS) for foreign trade transportation.

TFS involves activities in the field of transportation, covering the entire range of operations and services for delivering goods from the manufacturer to the consumer. In the TFS system for foreign trade transportation, the main intermediaries are forwarders and agents (brokers).

Forwarders are representatives acting on behalf of the cargo owner (shipper or consignee) by the owner's authority or at the owner's expense under an agency agreement. The operations they perform under the transportation forwarding contract are called forwarding operations.

Agents (brokers) are representatives acting on behalf of and at the expense of carriers under an agency (commission) agreement. The operations performed by brokers under the transportation agency contract are called agency or brokerage operations.

Topical questions

1. How does the global transport system function?
2. The concept of a transport corridor.
3. Types of transport corridors.
4. Explain the essence and types of transit transport corridors.
5. Major landbridge routes in the world.
6. Characterize the most important land transport corridors in the world.
7. How is the Pan-European transport policy structured?
8. Main intercontinental maritime routes.
9. Explain the essence of logistics.
10. Characterize international transport operations as an object of logistics management.

Test

Answer "Yes" or "No"

1. Transport corridors are divided into international and national:

A) Yes;

B) No.

2. A microbridge is a land connection between a port where cargo is delivered by sea and a port on the opposite coast of the continent, from where the sea transport continues:

A) Yes;

B) No.

3. A minibridge is a land connection between a port where cargo is delivered by sea and an inland destination on the continent:

A) Yes;

B) No.

4. A minilandbridge differs from a landbridge by the absence of the third component of the transport scheme:

A) Yes;

B) No.

5. Seaports and airports are the most important elements of the gateways of major transport corridors:

A) Yes;

B) No.

6. Ocean and air routes are not included in transport corridors:

A) Yes;

B) No.

7. Representatives acting on behalf of the cargo owner (shipper or consignee) in the name of or at the expense of the cargo owner under a power of attorney contract are called freight forwarders:

A) Yes;

B) No.

8. Intercontinental maritime routes today primarily cover the Pacific and Atlantic Oceans:

A) Yes;

B) No.

9. Representatives acting on behalf of carriers in the name of and at the expense of carriers based on a power of attorney (commission) contract are called freight forwarders:

A) Yes;

B) No.

10. The starting point of the logistical justification for the transport and technological scheme of cargo delivery from seller to buyer is the contract:

A) Yes;

B) No.

Answers: 1) A; 2) B; 3) B;4) A; 5) A; 6) A; 7) A; 8) A; 9) B; 10) A.

Choose correct answers

1. The largest number of merchant ships sail under the flags of:
A) Panama, Liberia, Marshall Islands, China, and Japan;
B) Panama, Liberia, Marshall Islands, Hong Kong, and Singapore;
C) USA, Liberia, China, Iceland;
D) Great Britain, Liberia, Marshall Islands.
2. The Pan-American axis of land transport corridors connects the following cities:
A) Montreal-Rio de Janeiro;
B) Montreal-São Paulo;
C) Montreal-Buenos Aires;
D) Montreal-Quito.
3. The Great Silk Road connects:
A) Istanbul and China;
B) Damascus and Tehran;
C) Istanbul and Baghdad;
D) Istanbul and Almaty.
4. A landbridge is:
A) a land connection between a port where cargo is delivered by sea and a destination on the opposite coast of the continent;
B) a land connection between a port where cargo is delivered by sea and an inland destination on the continent;
C) a land connection between a port where cargo is delivered by sea and a port on the opposite coast of the continent, from where the sea transport continues.
5. The Pan-African axis of land transport corridors connects the following cities:
A) Alexandria and Johannesburg;
B) Alexandria and Pretoria;
C) Alexandria and Nairobi;
D) Alexandria and Cape Town.
6. A microbridge is:
A) a land connection between a port where cargo is delivered by sea and a destination on the opposite coast of the continent;
B) a land connection between a port where cargo is delivered by sea and an inland destination on the continent;

C) a land connection between a port where cargo is delivered by sea and a port on the opposite coast of the continent, from where the sea transport continues.

7. International transport corridors connect:

A) two countries;

B) two or more neighboring states;

C) several transit states.

8. the most seaports are located in:

A) USA;

B) Netherlands;

C) China;

D) Canada.

9. The Pan-Asian axis of land transport corridors connects the following cities:

A) Istanbul-Yangon;

B) Istanbul-Singapore;

C) Istanbul-Tehran;

D) Istanbul-Jakarta.

10. The largest owners of merchant fleets are:

A) USA and China;

B) Japan and China;

C) Greece and China;

D) Greece and Japan.

11. A transport corridor can be:

A) transit, production-trade, infrastructural;

B) transit, trade;

C) development, transit, trade;

D) development, production-trade, infrastructural.

12. Among the countries of the world, the following country particularly stands out for the development of internal water transport:

A) Netherlands;

B) Great Britain;

C) Brazil;

D) Japan.

13. When cargo is delivered by sea from Europe to American ports of the Atlantic Ocean, and then by rail to ports on the West Coast – this is:

A) landbridge;

B) microbridge;

C) minibridge;

D) bridge.

14. It is serviced by the railways of the USA, Canada, and connects the northwestern ports of the USA and Canada with the ports of the Great Lakes:

A) Canadian landbridge;

B) Canadian minibridge;

C) Canadian microbridge;

D) Canadian bridge.

15. It connects the Pacific and Atlantic coasts of Mexico, serviced by Mexican railways and road transport:

A) Mexican landbridge;

B) Mexican minibridge;

C) Mexican microbridge;

D) Mexican bridge.

16. What is not an element of a transport corridor?

A) ports;

B) intermodal terminals;

C) sea routes.

17. The transportation of goods from Far Eastern ports through North American ports to inland points in the USA is:

A) landbridge;

B) microbridge;

C) minibridge;

D) all answers are correct.

18. A land connection between a port and a port on the opposite coast of the continent, from where sea transport continues – this is:

A) landbridge;

B) microbridge;

C) minibridge;

D) bridge.

19. Ensures conditions for the unobstructed and economically efficient movement of vehicles in a certain direction:

A) transit transport corridor;

B) development transport corridor;

C) trade transport corridor;

D) general transport corridor.

20. Activity in the field of transportation that covers the entire range of operations and services for the delivery of goods from the producer to the consumer – this is:

A) transport-forwarding service;

B) transport corridor;

C) transit transport corridor;
D) trade transport corridor.

Answers: 1) B; 2) C; 3) A; 4) C; 5) D; 6) B; 7) B; 8) C; 9) D; 10) D; 11) C; 12) A; 13) C; 14) A; 15) A; 16) C; 17) B; 18) A; 19) A; 20) A.

Chapter Summary

1. Transport corridor is important element of regional economic development. It comprises concentrated transport, freight, and passenger flows on major highways with high infrastructure standards, allowing for efficient and cost-effective transportation. These corridors are categorized into international and national types, with international transport corridor connecting multiple countries and national corridor operating within a single country.
2. International transport corridor facilitates trade between countries, often governed by international agreements (e.g., the TRACECA project in Europe and Asia, NAFTA in North America). National transport corridor links major cities or economic hubs within a country and can serve as branches of ITCs (e.g., Boston-Washington in the USA).
3. Transit corridor focuses on efficient movement of vehicles. Trade corridor enhances trade with integrated logistics and favorable regulations. Development corridor drives economic and social development in specific regions.
4. There are three types of landbridge systems: landbridge, connects ports across continents via land (e.g., from Pacific ports in North America to Atlantic ports); minibridge, which connects a port to an inland destination on the opposite coast; microbridge, which connects a port to inland destinations within the same continent.
5. Transport corridors feature key nodal points for transport mode changes and logistics operations. These nodes often include rail and road networks with intermodal terminals.
6. Pan-European Transport Policy policy formalizes the trans-European transport axes and corridors, facilitating seamless transport across Europe and into Asia (e.g., the "Crete Corridors" and the TRACECA project).
7. Logistics involves managing the movement of materials and information from the source to the consumer, aiming to minimize total costs. It encompasses various types, including procurement, production, distribution, transport, and information logistics.

8. Transport conditions are specified in foreign trade contracts, covering shipment terms, transfer points, loading/unloading standards, and intermediary roles. Efficient transport logistics depend on intermediaries like forwarders (acting on behalf of cargo owners) and brokers (acting on behalf of carriers).

Key Terms

Development corridor – a corridor that designed to play a systemic role in the economic and social development of the territories through which they pass.

International transport corridor – a corridor that connects two or more neighboring states and can pass through several transit countries, particularly to facilitate maritime trade for landlocked countries.

Landbridge transit corridor– a land connection between a port where cargo is delivered by sea and a port on the opposite coast of the continent, from where sea transportation continues;

Logistics **-** the management of the movement of material flows and related information from the initial source to the final consumer with minimal total costs.

Microbridge transit corridor– a land connection between a port where cargo is delivered by sea and an inland destination on the continent.

Minibridge transit corridor – a land connection between a port where cargo is delivered by sea and a destination on the opposite coast of the continent.

National transport corridor – a corridor created within a single state.

Transit corridor **-** a corridor to ensure conditions for the unimpeded and economically efficient movement of vehicles in a specific direction.

Transport trade corridor **-** a combination of transport and logistics infrastructure, as well as services coordinated by a national or international regional body to facilitate trade and transport flows between centers of economic activity and international trade ports.

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Посібник призначений для студентів закладів вищої освіти, які навчаються за напрямом підготовки «Міжнародні економічні відносини», а також для студентів інших економічних спеціальностей, підприємців.