

# **MNEs – global management** **in the Czech Republic**

# Reasonability of the topic &

- U.S. retailer Amazon Inc.'s (AMZN) development plan to build highway connections to an envisioned logistics center in the city of Brno was rejected Friday by the Brno city council, potentially threatening the investment.

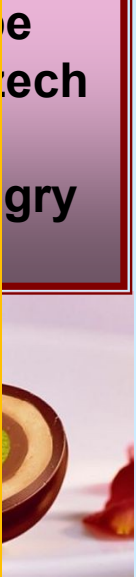
- Representatives of Amazon weren't immediately available to comment. Amazon wanted permission to construct an off-ramp between its planned logistics warehouse and a nearby expressway. The company could operate from the site without the off-ramp but would prefer smooth access for delivery trucks.

- Amazon earlier said it planned to invest more than 200 million euros (\$273 million) to build two distributions centers in the country to serve clients in parts of Germany and southeastern Europe.

Thursday local representatives of Dobroviz, a town near Prague where Amazon would like to build another logistics center, approved a similar development plan.

But in light of the rejection in Brno, it remains uncertain whether the investment will move forward.

<http://online.wsj.com/article/BT-CO-20140214-711925.html>



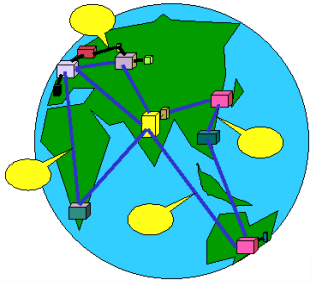
# Is today's economy global?

- your ideas?
- Thomas Friedman
- Ghemawat
- ...

# Overview



- **Global integration**
- Global rankings
- Global corporate strategy
- Czech republic & cases



# Global integration

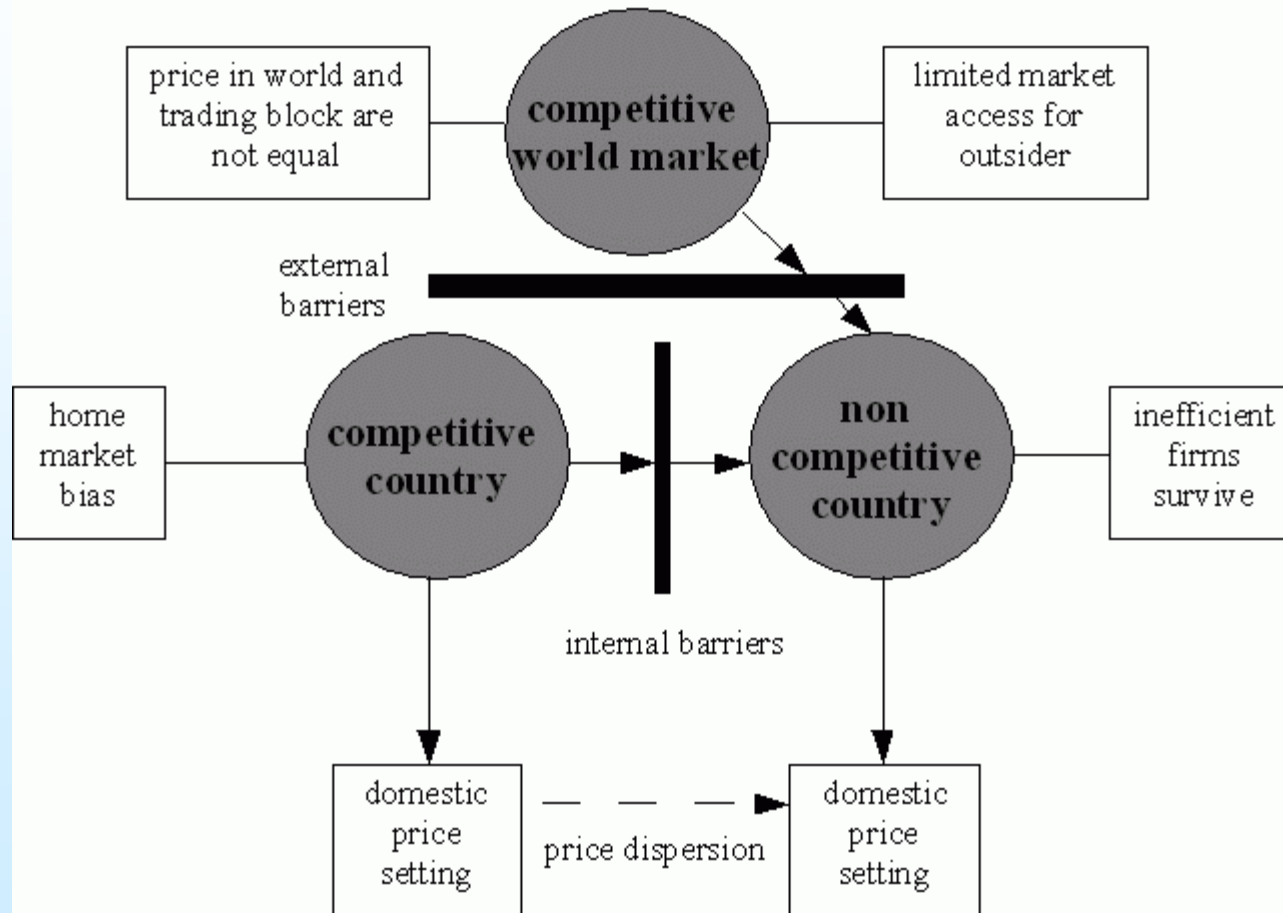
- Theoretical approach
  - Competitive advantage
  - Comparative advantage

## Examples of comparative advantage:

- ✓ Slovakia /Germany
- ✓ France/Netherlands
- ✓ Finland/Poland
- ✓ Czech Republic/Italy

# Segmented markets

Figure 1: The segmented market case



Source: Filip Abraham, Internalization and globalization

# Consequences

- Price dispersion
- Home bias
- Access to markets

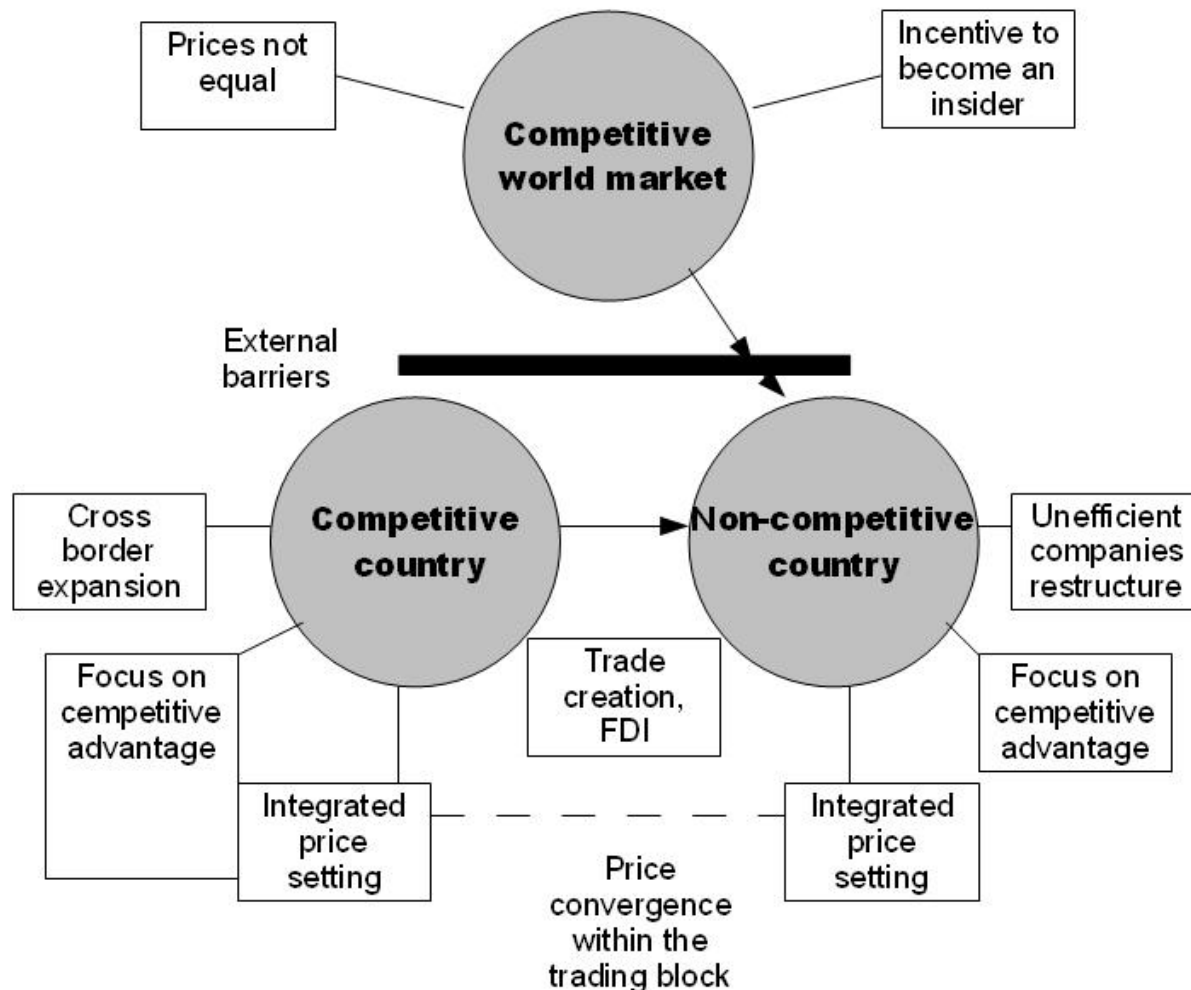
# Integration within trading block

*The dominance of the US is already over. What is emerging is a world economy of blocs represented by the North American Free Trade Agreement, the EU, and the Association of Southeast Nations. There's no one center in this world economy.*

*Peter Drucker*



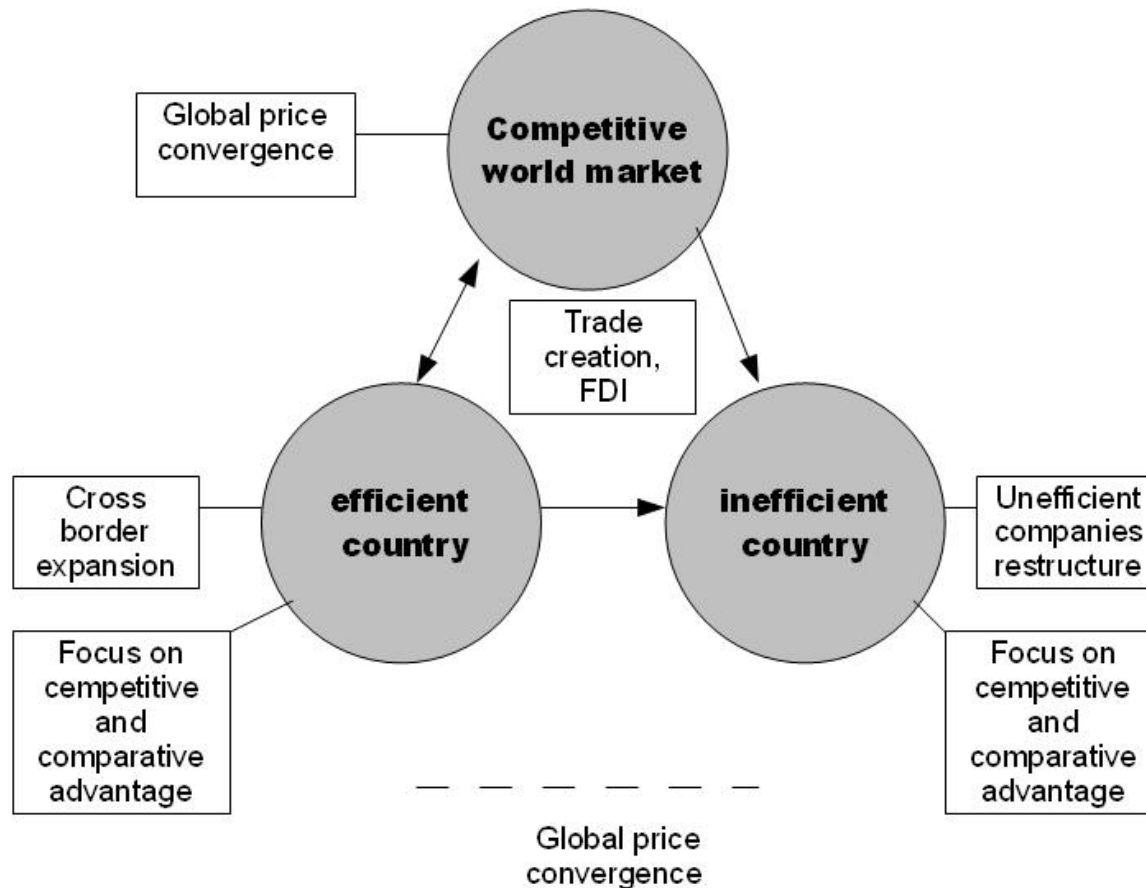
# Integration within trading block



# Consequences

- Price convergence within trading block
- Expansion of efficient firms
- Focus on their competitive advantage
- Relation between specialization of firms according to competitive advantage and the specialization of a country according to comparative advantage
- Attractivity of successful regional trading blocks

# Global integration



*Source: Filip Abraham, Internalization and globalization*


# Consequences

- Global price convergence
- Home market bias disappears
- Efficient firms prevail
- Firms focus on their competitive advantage, countries specialize according to their comparative advantage

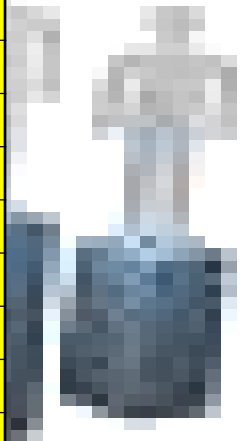
# From theory to practice

- Price convergence
- Home market bias
- Turning to corporate specialization due to integration
- Relation between intergration and comparative advantage of countries

# Global rankings



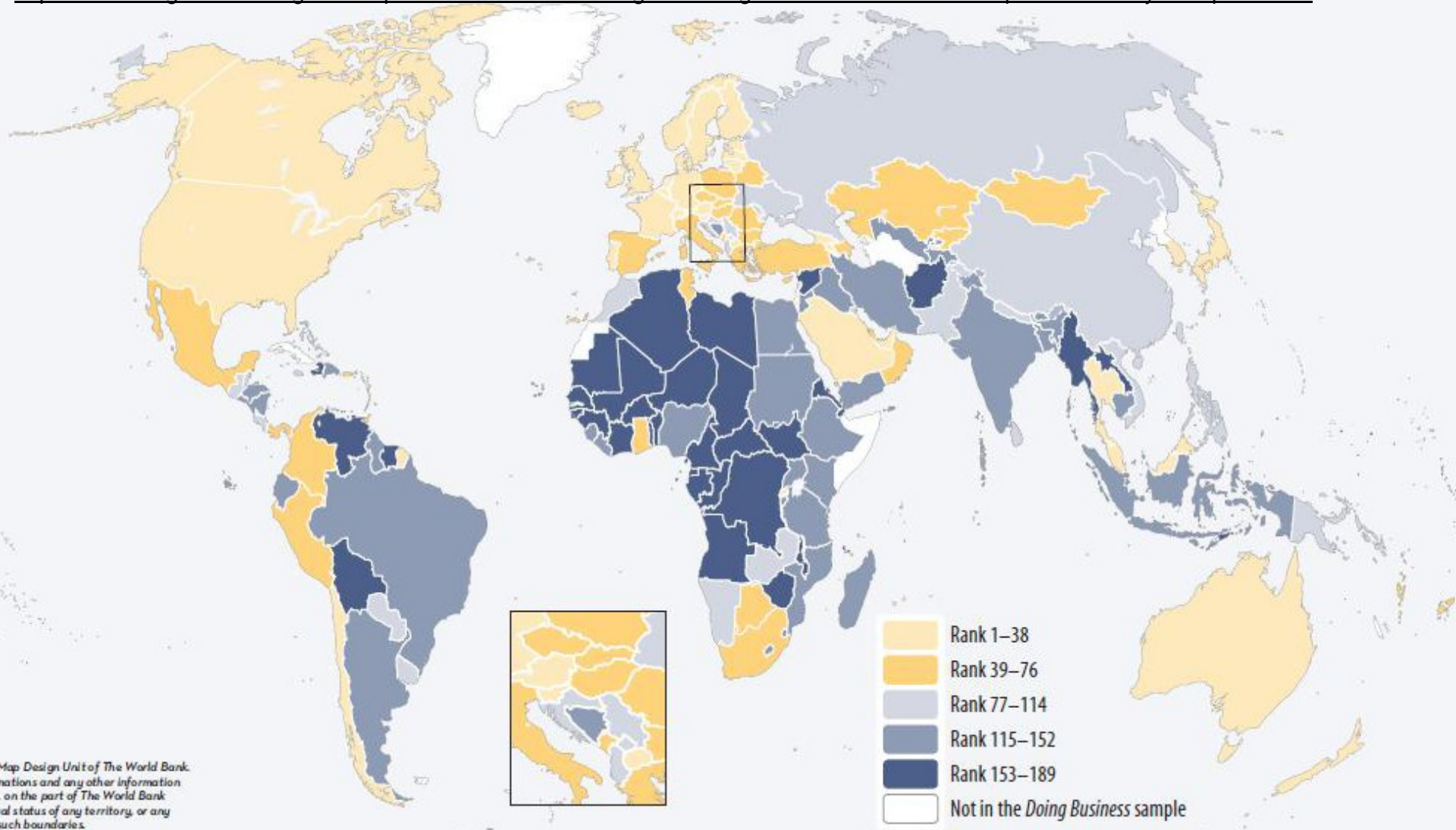
Country/Economy	GCI 2009–2010		GCI 2008–2009
	Rank	Score	Rank*
Switzerland	1	5,6	2
United States	2	5,59	1
Singapore	3	5,55	5
Sweden	4	5,51	4
Denmark	5	5,46	3
Finland	6	5,43	6
Germany	7	5,37	7
Japan	8	5,37	9
Canada	9	5,33	10
Netherlands	10	5,32	8
Hong Kong SAR	11	5,22	11
Taiwan, China	12	5,2	17
United Kingdom	13	5,19	12
Norway	14	5,17	15
Australia	15	5,15	18
Czech Republic	31	4,67	33



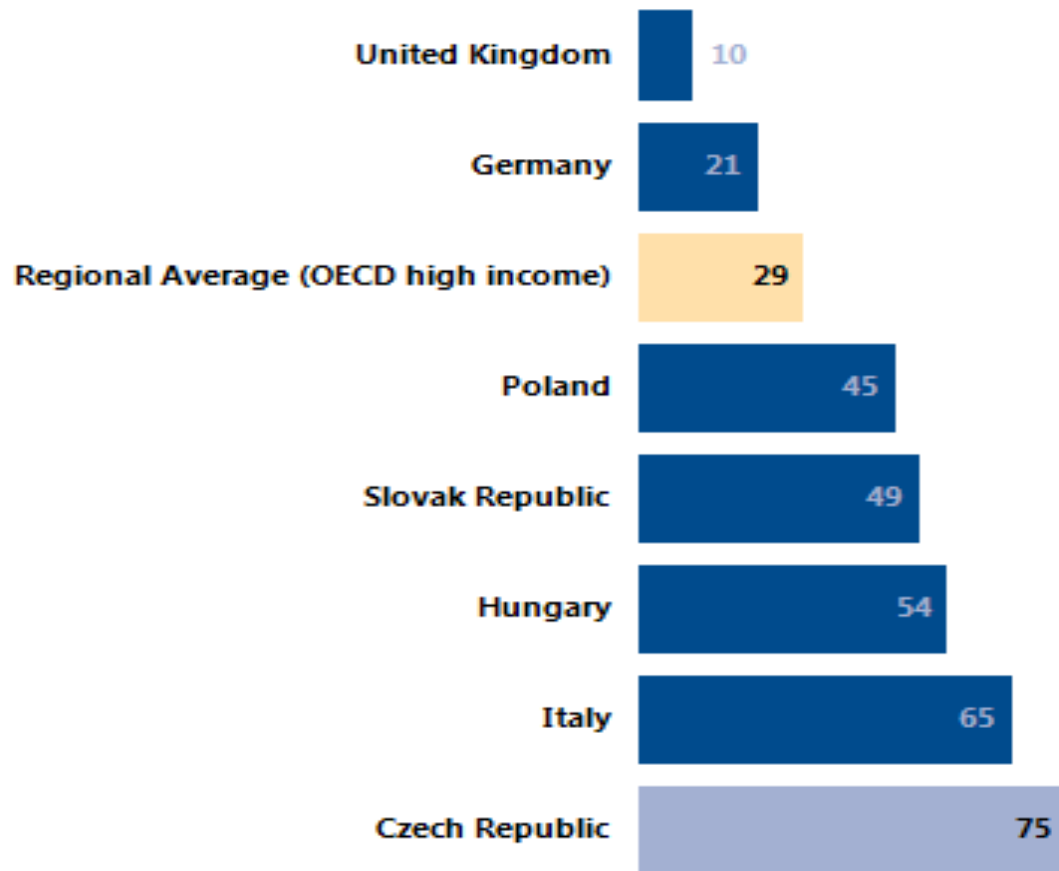
<http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%Report/index.htm>

# The Czech Republic ranking

<http://www.doingbusiness.org/data/exploreeconomies/~media/giawb/doing%20business/documents/profiles/country/CZE.pdf?ver=2>



# The Czech Republic ranking

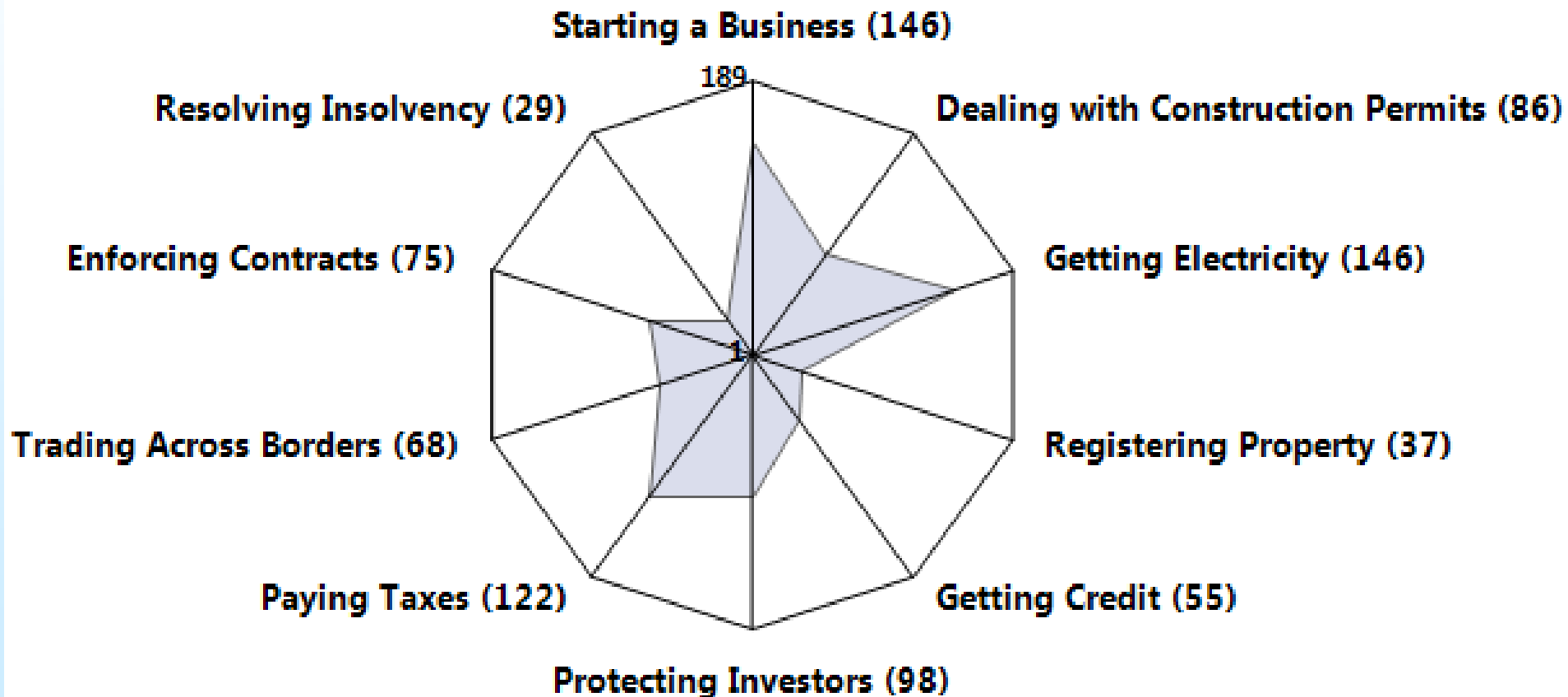


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Ease of doing business ranking



# The Czech Republic ranking

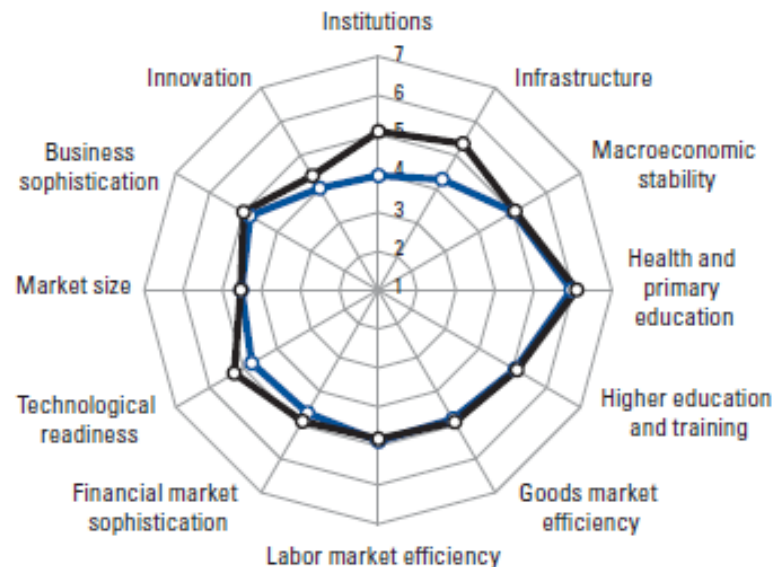


# The Czech Republic ranking

## Global Competitiveness Index

	Rank (out of 133)	Score (1–7)
<b>GCI 2009–2010</b> .....	<b>31</b>	<b>4.7</b>
GCI 2008–2009 (out of 134).....	33	4.6
GCI 2007–2008 (out of 131).....	33	4.6
<b>Basic requirements</b> .....	<b>45</b>	<b>4.8</b>
1st pillar: Institutions.....	62	3.9
2nd pillar: Infrastructure.....	48	4.3
3rd pillar: Macroeconomic stability.....	43	5.0
4th pillar: Health and primary education.....	33	5.9
<b>Efficiency enhancers</b> .....	<b>24</b>	<b>4.8</b>
5th pillar: Higher education and training.....	24	5.1
6th pillar: Goods market efficiency.....	27	4.8
7th pillar: Labor market efficiency.....	20	4.9
8th pillar: Financial market sophistication.....	42	4.6
9th pillar: Technological readiness.....	30	4.7
10th pillar: Market size.....	40	4.5
<b>Innovation and sophistication factors</b> .....	<b>26</b>	<b>4.4</b>
11th pillar: Business sophistication.....	25	4.8
12th pillar: Innovation.....	25	4.0

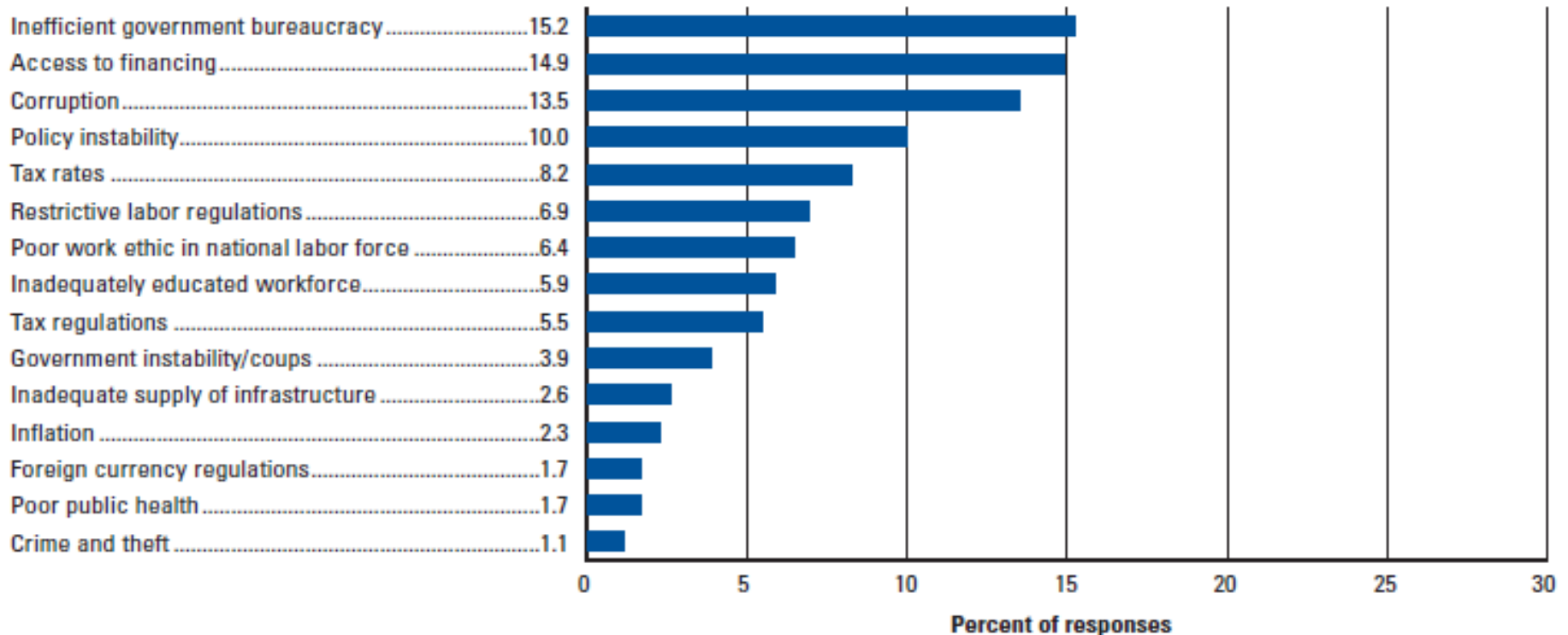
## Stage of development



—●— Czech Republic    —●— Innovation-driven economies

# The Czech Republic ranking

## The most problematic factors for doing business



Note: From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country/economy and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

# Expanding abroad

Companies that go abroad have to face a set of key questions:

- Why do they want to expand across borders?
- What factors make them decide?
- What strategies will they follow?
- Which entry mode will they choose?
- What are the consequences for their corporate organizational model?
- How do they balance the global strategy?
- ...

# Expanding abroad

Which entry mode to choose?

- all of entry modes involve resource commitments , firms' initial choices of a particular mode are difficult to change without considerable loss of time and money [Root 1987].
- factors that influence the choice of an entry mode for a selected target market
- Dunning [1977, 1980, 1988] - the choice of an entry mode for a target market is influenced by three types of determinant factors: **ownership advantages of a firm, location advantages of a market, and internalization advantages of integrating transactions within the firm.**

# Expanding abroad

- Extended Dunning's theory
- Not predictive – it does not help to find out how the FDI will evolve in the future, it is rather descriptive – it helps companies to ask the right question about global corporate strategy
- Useful check-list approach
- Focuses on 3 main questions:

**Why do companies go abroad? (Ownership advantages)**

**Where the company wants to operate? (Location advantages)**

**How the company intends to enter the market?**

# Expanding abroad

## Why do companies go abroad? (Ownership advantages)

- Monopolistic advantages
- Technology, knowledge
- Economies of scale
- Reputation
- Organizational architecture (logistic models,..)

Company has to investigate to what extent those strengths allow the company to differentiate itself from competitors on foreign markets

# Expanding abroad

## Where the company wants to operate? (Location advantages)

- Factors that determine the location decision:
  - Sources of national comparative advantage
  - Sources of regional comparative advantage
  - The degree to which four freedoms are realized
  - Political, social, cultural aspects



# Expanding abroad

## How the company intends to enter the market?

- entry mode that minimizes transaction cost
- internalization advantages
- typology of market entry strategies:
  - home based strategies
  - market-seeking strategies
  - value chain strategies



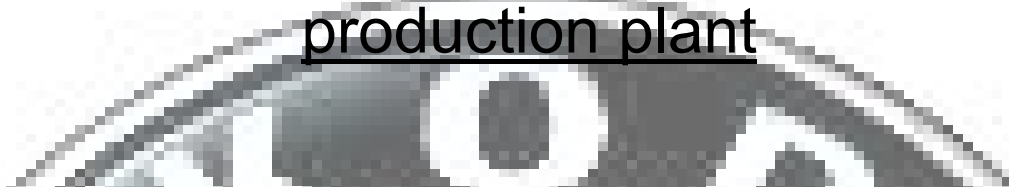
# J4



J 4 was established in 1994 and deals with the development and production of cyclothermic tunnel band baking ovens and with delivering complete baking and bakery lines and bakeries. The ovens are not only designed for baking rye, rye-wheat or wheat bread, but also various types of bread and pastries, fancy breads, pies, stuffed cakes, cookies, gingerbread, sponge cake biscuits, salted sticks and numerous other baked products.

During the short time of its existence, the company has become a lead player on European markets, and markets in the Middle East and Far East. At the present the company supplies baking equipment to England, Belarus, Brazil, Croatia, Cyprus, the Czech Republic, Egypt, England, France, Germany, Hungary, Italy, Kuwait, Moldavia, Mongolia, the Netherlands, Romania, Russia, Saudi Arabia, Slovakia, Spain, Sweden and the Ukraine.

## Škoda auto a.s. – Russia – market seeking strategy – production plant



- "Opening our first production plant in Russia is a milestone in Škoda Auto's expansion to eastern markets, because the region is growing very dynamically and we look at it with high hopes as far as the future of Škoda Auto is concerned," said Škoda Auto BOD Chairman Reinhard Jung.
- The key factor in selecting the location for the Group's plant was the fact that the biggest portion of the sales volume in the Russian market is in Moscow that is less than 200 km away from Kaluga. Another important thing is the transport infrastructure, because Moscow and Kaluga are linked by both railway and a motorway. On top of that, the technical university in Kaluga is likely to be a source of qualified manpower in the future.



# Kofola

- Czech Republic
- Slovak Republic
- Russia
- Poland



# Portfolio



# Kofola

- 2000 – HOOP got the license for bottling Kofola
- 2002 – bought the trade mark Kofola and the recipe
- ...
- 2010 – got license for Orangina Schweppes International
- Buying Radenska?? Slovenian producer and distributor of water



# KOH-I-NOOR

- **Contract Manufacturing**

- common means of utilizing cheaper labor overseas is to contract for production of finished goods or component parts

## KOH-I-NOOR

- Since 1790
- 2004 factory KOH-I-NOOR Nanjing Stationery CO. Ltd. in Nanjing, China – a part of production has been removed from the Czech republic



# Y Soft

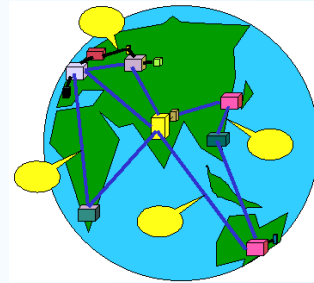
- globally-operating company providing scalable print system management solutions (software and hardware) that enable companies and organizations to control costs, reduce waste, increase convenience for users, and have a positive effect on the environment.
- employs more than 180 people, of whom 135 are located in the Czech Republic. Consolidated Group revenues total €11mil / \$15mil. For the last nine years Y Soft has continuously experienced double-digit growth. Y Soft exports 90 percent of its production. Y Soft is headquartered in Brno, Czech Republic, with offices in major regions of Europe, the Middle East, North America, Latin America, Asia and Australia

<http://www.ysoft.cz/>



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**Thank you for attention!**

