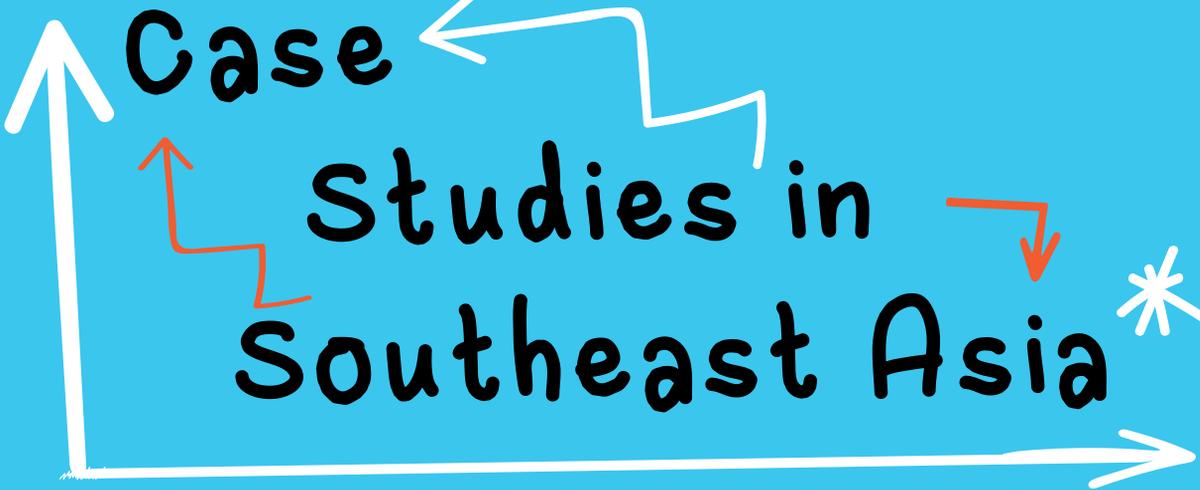




International Business Management



Case
Studies in
Southeast Asia*



Assistant Professor
Rapeeporn Rungsithong, Ph.D.

International Business Management: Case Studies in Southeast Asia

International Business Management: Case Studies in Southeast Asia

Rapeeporn Rungsithong

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Preface

Southeast Asia, home to one-quarter of the world's population, is a rapidly growing economic region and a hub for manufacturing and supply chain diversification. The region also has a growing middle class and active consumer base. However, its diverse regional environment requires careful attention to detail for successful entry and operation. Firms must effectively manage international business in this dynamic environment.

This book compiles a wide range of accounts to explore the international business management of multinational enterprises (MNEs), showcasing different models and current themes that facilitate an understanding of the multinational firm activity with case studies set in Southeast Asia. The book covers various aspects of business and management practices, such as location decisions, market access, and supply chains. The audience will learn about the Southeast Asian business histories, cultures, and institutions, as well as devising global strategies tailored to regional contexts for effective implementation in this market.

Who should read this book? The handbook "International Business Management: Case Studies in Southeast Asia" is ideal for *undergraduate and postgraduate students and scholars* who are interested in understanding the unique challenges and strategies of doing business in Southeast Asia. It would particularly benefit those studying international business, management, and emerging markets.

In addition, this book not only offers principles of international business management but also presents several case studies and lessons learned from MNEs operating in the Southeast Asian countries. These case studies highlight market opportunities, best business practices, risks, and effective mitigation plans. The audience will gain insights into key issues relevant to international business management and apply them in business planning and implementation.

Acknowledgement

Writing a book is a long journey, and along the way, many generous and supportive individuals contributed their time and efforts to help bring this work to completion. I am deeply grateful to everyone who supported me in any capacity during this process. Any errors or omissions are entirely my responsibility.

Firstly, I extend my heartfelt thanks to the anonymous reviewers for their insightful comments and constructive feedback, which significantly enhanced the quality of this manuscript. I am also profoundly appreciative of and Professor Mike Peng and my PhD supervisor, Professor Klaus Meyer, whose inspiring academic work and guidance have been instrumental in shaping my research in international business management within developing countries. Their advice has illuminated my teaching and research endeavors. Moreover I, owe a special debt of gratitude to my colleagues at Chulalongkorn Business School, Chulalongkorn University, for their exceptional intellectual and moral support throughout this project.

I am also deeply indebted to my husband and our wonderful daughter. Your unwavering belief in me and support gave me the strength to see this book through to completion. Lastly, and most importantly, I wish to express my profound gratitude to my father, my mother, and my sisters, whose unconditional encouragement and support have always been a source of strength and inspiration, motivating me to contribute positively to society.

Rapeeporn Rungsithong
Bangkok, Thailand

Chapter roadmap

This book divides into three parts, including 1) International business environment, 2) International business strategy and 3) International business operations. Each part would combine theory with practical case study insights, illustrating the diverse opportunities and challenges for international business in Southeast Asia. This roadmap could serve as a comprehensive guide for readers navigating this dynamic region.

Part 1: International Business Environment

Part 1, *International Business Environment*, introduces essential concepts and frameworks for understanding the global landscape in which businesses operate. This section covers four foundational chapters that examine international business scope, formal institutions, cultural diversity, and foreign exchange risks.

Chapter 1: Introduction to International Business

This chapter provides an overview of international business, defining its scope and examining the critical concepts of Liability and asset of foreignness, which address the unique challenges and advantages of operating in foreign markets. It also discusses trends in globalization, deglobalization, and regionalization, along with ASEAN's significant role in promoting regional economic integration. Together, these topics offer a foundational understanding of the forces shaping international business today.

Chapter 2: Understanding Formal Institutions

This chapter focuses on formal institutions, which are crucial in structuring business environments. It covers political, legal, and economic systems that form the basis of formal institutions and examines their impact on business operations. The chapter also discusses political risk assessment, institutional voids (gaps in infrastructure and regulation often found in emerging markets), and strategies to address these challenges. The case study of TikTok Shop in Indonesia demonstrates how formal institutional pressures can impact businesses in emerging markets.

Chapter 3: Understanding Cultural Diversity

Cultural diversity is a key factor in international business, and this chapter explores the concept of culture, including its foundational values and dimensions. Topics include high-context vs. low-context communication, group orientation, and relationship-building practices such as guanxi. Additionally, the chapter addresses ethics and corruption, emphasizing the importance of Cultural intelligence (CQ) for international managers. A case study offers insights into what expatriates need to understand when collaborating with Malaysian colleagues, highlighting the importance of cultural adaptation.

Chapter 4: Foreign Exchange Risks and Mitigation

This chapter examines foreign exchange risks, a critical consideration for businesses operating internationally. It explores how currency values are determined, trends in Southeast Asian currency markets, and strategies to manage and mitigate foreign exchange risks. The chapter also includes a case study on the foreign exchange crisis in Laos, which illustrates the impact of currency volatility on business and economic stability.

Part 2: International Business Strategy

Part 2, *International Business Strategy*, explores the strategic approaches that organizations adopt to grow and succeed in global markets. Through three core chapters, it addresses the processes, entry modes, and strategies that firms use to navigate international expansion.

Chapter 5: Growing International Business

This chapter covers the foundational aspects of internationalization, including its key dimensions and methods for measuring success. It examines the steps businesses follow to internationalize and explores how companies evolve from small and medium enterprises (SMEs) to multinational enterprises (MNEs). Topics also include the role of entrepreneurial subsidiaries, which drive innovation and growth, and the

rise of born-digital MNEs, companies that are digital-first and rapidly internationalize. The chapter features a case study of Gojek, highlighting how the Indonesian company expanded its presence internationally.

Chapter 6: Selecting Mode of Foreign Market Entry

Chapter 6 addresses how companies choose foreign markets and the methods for entering them. It discusses the criteria firms use to select the best mode of entry based on factors like risk, resource availability, and long-term goals. The chapter includes a case study on Moderna's market entry into Singapore, illustrating how a strategic entry approach can impact success in a new market.

Chapter 7: Crafting a Global Strategy

The final chapter in this section focuses on developing a comprehensive global strategy. It covers forming an international vision, creating value in global markets, and managing the balance between cost reduction and local responsiveness. The Integration-Responsiveness (IR) framework is introduced, helping firms align global integration with regional adaptation. The chapter also explores strategies for digital MNEs and the importance of flexibility in global strategy. Grab's approach to the Southeast Asian market is used as a case study, showing how dynamic strategy adaptation can be critical in a competitive region.

Part 3: International Business Operations

Part 3, *International Business Operations*, explores the practical aspects of managing people, marketing, and stakeholders in a global context. Through three comprehensive chapters, it provides insights into organizational management, marketing strategies, and stakeholder engagement in international markets.

Chapter 8: Managing International Organizations and People

This chapter focuses on structuring and managing multinational organizations. It covers the different organizational structures suited for international operations, aligning global strategy with structure, and the unique corporate cultures of MNEs

(multinational enterprises). It also delves into International Human Resource Management (IHRM), highlighting types of employees within MNEs, staffing strategies, recruitment of local talent, and training in culture and language to ensure effective cross-cultural communication. The case study on Citibank's talent management in Thailand illustrates effective practices in managing a diverse workforce in a specific market.

Chapter 9: International Marketing Strategy and Operations

This chapter examines the fundamentals of international marketing strategy, including the elements of the international marketing mix and supply chain management tailored for global markets. It provides an overview of how companies adapt their product, pricing, promotion, and distribution strategies to meet the needs of various international markets. The case study of Apple's marketing strategy in Vietnam demonstrates how global brands can successfully localize their marketing efforts to resonate with specific cultural and economic contexts.

Chapter 10: Managing Key Stakeholders

The final chapter in this section addresses the complexities of stakeholder management in a global setting. It discusses navigating ethical dilemmas, developing strategies for managing diverse stakeholders, and understanding ethical challenges unique to the Southeast Asian market. Additionally, it explores Corporate Social Responsibility (CSR) initiatives, focusing on how companies contribute to social goals while building trust and goodwill. Samsung's CSR campaign in Vietnam, with an emphasis on education, is presented as a case study, showcasing the impact of socially responsible initiatives on both communities and corporate reputation.

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Chapter 1

Introduction of international business management

International business, also known as global business, involves transactions that occur across national boundaries. These transactions stimulate not only international trade but also foreign direct investment (FDI) on a global scale. However, international managers and entrepreneurs need to be aware that different markets require different managerial practices and strategies. By doing so, they need to understand the local contexts and institutions to design the managerial practices that fit with the target markets. This chapter aims to provide the basic concepts of international business management, globalization and deglobalization. Additionally, this chapter introduces the role of Southeast Asia as an important region in the global economy.

1.1 Concepts of Liability and Asset of Foreignness

Although internationalization into foreign markets can yield benefits for MNEs, such expansion also can be accompanied by competitive disadvantages relative to local companies. There are two concepts that can explain the costs and benefits of doing international business, including liability of foreignness (LOFs)¹ and asset of foreignness (AOFs)².

- **Liability of Foreignness (LOFs)**

Liabilities of foreignness (LOFs) refers to the additional tacit and social costs that foreign firms face when entering a particular foreign market. In other words, the term 'liability' here is as same as 'liability' in accounting, which is additional costs needed to be paid for being a foreigner in a new location. Not only individuals but also foreign companies experience this inherent disadvantage. A foreign company has to pay work permit application fees and taxes higher than a domestic company. These are costs that a foreign company needs to prepare when entering a foreign market. In addition, a foreign company also faces social and economic costs when it operates

in a foreign market and pays higher costs of doing business than a domestic company. In sum, a foreign company needs to prepare higher spending costs than a domestic company. However, opportunities to enter a larger market could offset these costs.

- **Asset of Foreignness (AOFs)**

The concept 'asset of foreignness', which is opposite to the liability of foreignness. AOFs refers to the unique advantages that may accrue to MNE subsidiaries particularly due to their being foreign. Precisely, the company's expertise and technology may be distinct from local companies. Also, the international experience could also be considered as an asset of foreignness. For example, Thai customers prefer Korean or Japanese brands of air condition to Thai brands because of the reputation of high quality of those brands. Hence, Japanese electronic appliance company has an asset of foreignness because it gains more trust from Thai customers. It is the same scenario for Thai car companies. The Thai car brand is not famous and does not gain much trust, while Toyota, Honda, Volkswagen, and Tesla, which are from other countries, seem to be of higher quality from Thai customers' viewpoint. In contrast, Thai brand is famous for foods, fruits, flowers such as orchids and Thai silk. These are the asset of the foreignness of products made in Thailand. Some research suggests that customers in CLMV (Cambodia, Laos, Myanmar, and Vietnam) prefer daily life products imported from Thailand to products imported from China. The reason is that although Chinese products are cheaper, Thai products seem to have higher quality. If a company can identify its asset of foreignness, it could find the core competency and the competitive advantage in a foreign market. In addition, various types of companies operate in global business³, including:

- **International company**

A company engaged solely in importing or exporting is termed an 'international company.' Traditional international trade involves producing added value domestically and exporting the final product for global consumption, such as Vietnam's cloth exchanged for American soybeans. A small or medium-sized enterprise can be

classified as an international company if it imports and exports materials or products. Additionally, if a company has sales branches or representative offices in other countries that focus solely on increasing sales without managing operations, it is also considered an international company.

- **Multinational Corporation (MNC) or Multinational enterprise (MNE)**

A company that not only offers products and services but also conducts operations in other countries is known as a “multinational company.” These companies can vary widely, from smaller enterprises that invest abroad to large corporations managing subsidiaries in numerous countries. Multinational companies engage in various activities in the international market, including trade and FDI. For instance, Starbucks operates as a franchise that supplies not only its products and services but also ingredients, design, staff training, and oversees operations internationally.

- **Transnational corporation (TNC)**

Transnational corporations (TNCs) are managed from their home country but have extensive operations in numerous other countries. TNCs operate with an internal system of differentiation, assigning various roles and responsibilities to their foreign subsidiaries. This management system, based on strong interdependence between subsidiaries, enhances learning capabilities and boosts the MNE’s competitiveness in international markets. TNCs are the largest among the three types of international companies, typically engaging in foreign direct investment in multiple locations worldwide. Consequently, TNCs focus on the competitive landscape of the global market. For instance, Toyota does not engage in export and import transactions but provides spare parts to its subsidiaries across many countries.

1.2 Globalization, Deglobalization and Regionalization

1) Globalization

Globalization is a process that links countries together for trade and investment. As tastes and customer preferences converge, products can be universally appealing. This process has been viewed as an inevitable and irreversible phenomenon, fostering a community that diminishes nationalism. Globalization can be seen as a pendulum that swings between extremes over time. At certain points, it reaches its peak and is widely promoted by various nations. In other words, trade globalization speed swings up and down because of government policies, sanctions, the political relations between countries.

Business scholars debate whether the world is truly “flat” or globalization⁴. In the early 1900s, journalist Thomas Friedman wrote “The World is Flat,” suggesting that everything in the world is interconnected, marking a period of globalization where people consume similar products like fashion and technology gadgets, and communication bridges gaps worldwide. Conversely, Pankaj Ghemawat, a professor at Harvard Business School, countered Friedman’s view in a Harvard Business Review article. He argued that the world is not flat, highlighting a disconnection among global populations. He pointed out that migration rates are not as high as implied and that exporting products or investing globally is not as straightforward as Friedman suggested. Ghemawat proposed that the world is in a state of semi-globalization, with persistent barriers to global business operations. Globalizing has different speeds among information, trade, capital, and people. It seems to be difficult to move people to cross borders. Factors such as laws, regulations, and work permits make it difficult to exchange people freely.

2) Factors enhance globalization

Many of the national elements as shown in Table 1-1 can act as catalysts for either globalization or deglobalization, including⁵:

- **Institutional drivers**

Collaborations among leading economic nations that are strongly committed to globalization serve as institutional drivers. Significant economic integration has taken place post-World War II, with organizations such as the WTO, IMF, and ASEAN, as well as initiatives like China's Belt and Road Initiative, which aim to reduce international trade barriers and boost global economic growth. In Southeast Asia, ASEAN has played a crucial role in fostering economic cooperation, facilitating trade agreements, and creating a more integrated economic landscape that promotes regional and global connectivity.

- **Domestic political drivers**

Domestic policies are designed to help individuals and businesses leverage the benefits of globalization. For example, countries like Singapore have implemented policies that encourage open markets and global trade, positioning themselves as major trade hubs. Similarly, Malaysia's focus on trade liberalization has attracted foreign investments and supported domestic firms in becoming competitive on the global stage.

- **Geopolitical drivers**

Political relationships between major economic powers can either promote or hinder globalization. Positive geopolitical ties, such as trade agreements and cooperative alliances, can enhance global trade. Conversely, tensions between countries can result in protectionism and hinder globalization. For instance, the South China Sea's strategic importance has influenced geopolitical relationships in Southeast Asia, impacting trade routes and regional stability.

- **Technological drivers**

Technological advancements make global connectivity easier and influence consumer preferences towards shared global tastes. Innovations like 3D printing and robotics support globally optimized supply chains. Additionally, lower communication and transportation costs and the rapid spread of digital technology facilitate globalization.

In Southeast Asia, the adoption of e-commerce platforms, mobile banking, and digital services has accelerated cross-border trade and allowed entrepreneurs to reach international markets quickly. Companies can source products from countries with lower labor costs, such as Vietnam or the Philippines, to minimize production expenses. However, global production may face obstacles, including formal and informal trade barriers, transportation expenses, political and economic risks, and coordination challenges.

Table 1-1 Drivers of globalization and deglobalization

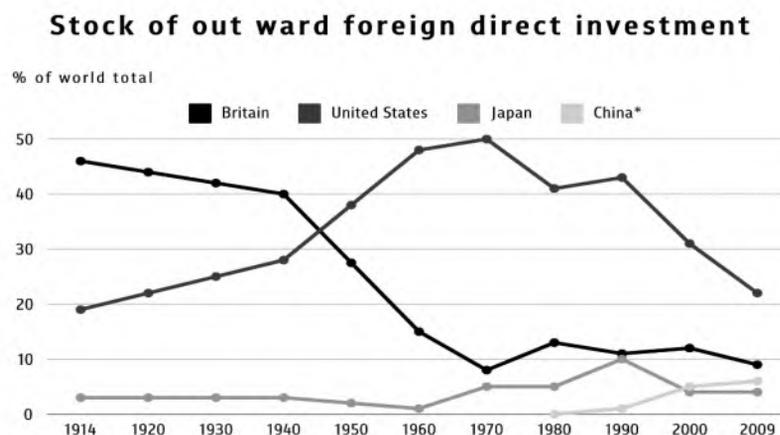
Globalization	Deglobalization
Institutional drivers	
Economic integration in the post war period, such as WTO, IMF, ASEAN The Belt and Road initiatives	Protectionist trade tariffs, railroad tariffs, hygiene requirements for imports, quotas, tariff and non-tariff barriers
Domestic political drivers	
Economic growth and improved human rights	Democratic calls for deglobalization and a surge in support for protectionist and nationalist political parties and leaders Consumer health and safety, environmental and social responsibility standards
Geopolitical drivers	
The end of cold war and the integration of the Eastern bloc into the world market China's integration into the world market	Geopolitical rivalry (such as China-US, sanctions) National security concerns
Technological drivers	
Lower communication costs and general spread of technology Digital e-commerce, social networks, and entertainment Supply chain expansion via reduced transportation costs	Technology available to support reshoring Rules on local data storage and processing and cross-border transfers

Source: Adapted from Klett & Li (2021)

Globalization can also be measured by outward foreign direct investment as presented in the Figure 1-1. Examining outward FDI between 1914 and 2009 reveals that the period from 1914 to the 1960s was an era of globalization led by the United States. The US government promoted free trade to support American companies in expanding their businesses abroad, resulting in a significant increase in US FDI during the 1960s and 1970s. In contrast, British MNEs experienced slower growth as they lost their competitive edge to US companies, leading to a decrease in British FDI. Japan, recovering from World War II, caught up with the globalization trend after the 1970s, and Japanese MNEs began exporting products and investing in other countries, particularly in Asia, with accelerated growth from 1980 to 1990.

China's outward FDI increased significantly after it joined the WTO. Conversely, US FDI growth began to decline in the 1980s as it lost its competitive advantage to Japanese companies. The trend of FDI from 2009 to 2020 is not shown here, but it is evident that Japanese companies have lost their competitive edge to South Korean companies, leading to an increase in FDI from South Korea and China. These trends highlight the shifting dynamics of FDI among different countries.

Figure 1-1: Stock of Outward Foreign Direct Investment (OFDI)



Source: Dunning & Lundan (2008)