

# BUSINESS STUDIES

## HSBC Holdings

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### 1.0 Executive Summary

Globalisation is a process by which markets become increasingly integrated through the removal of artificial trade barriers and the transfer between nations of goods and services, capital, labour, finance and intellectual property. In history, business would only be influenced by the domestic market, as globalisation increased in the 21<sup>st</sup> century, businesses are faced with more opportunities and challenges. The possibility of high sales has lured many businesses to participate in the global consumer markets. Globalisation has also led to business being more volatile in the global environment as they are influenced by the financial, political, legal and social circumstances of different countries. Whilst managing global businesses requires a number of strategies to manage different areas of operations, it must be able to evaluate and modify its strategies so it continues to be successful in the global market. Successful and large global businesses such as HSBC have strong influence and power in certain countries. It must ensure it is not only motivated by making profit, but also consider the environmental and social consequences of its actions.

### 2.0 Business Summary

HSBC is a true example of a global business operating as a public limited company incorporated in England and Wales. Headquarters in London, the HSBC is one of the largest bank and financial services companies in the world. Through its subsidiaries and associates, HSBC provides a range of banking and related financial services. The products and services of the Company include personal financial services, commercial banking, global banking and markets, and private banking. HSBC employs different methods of international expansion as they believe that businesses who operate in the global business market are at a better position to achieve their goals as well as providing services that exceed the benchmark of the industries. Today, with assets of over US\$1000 billion, HSBC occupies a leading position in the world of banking and finance with an international network of 6 continents and serving approximately 110 million customers. Its goal is to be 'The world's local bank', by highlighting that it is both a local and worldwide organisation, as it emphasises its local knowledge in each market, as well as its extensive global network [as seen in the following diagram]. In each of the countries it operates to provide products and services to fit the particular needs of their local business environment.



### 3.0 Reasons for international expansion

In the contemporary and competitive environment, it is difficult for businesses in many economies to achieve its full potential, as competition may be strong, and domestic market is relative small compare to the global consumer market. The possibility of increased sales has enticed HSBC to look beyond their domestic markets. When HSBC operate globally it can access a global consumer market; the potential for higher sales is greatly increased.

The motivation for expanding a business may vary. Common reasons for expansion include to:

- Increase sales and find new market
- Acquire new resources and technology
- Benefits from economies of scale
- Diversify and reduce risk, cushion the impact of economic cycle
- Benefit from regulatory differences found in different market
- Minimise tax payments

#### 3.1 Increase Sales and Find New Market

One of the major reasons for HSBC to expand to the global market is that it provides potential for high sales is greatly increased, resulting in higher profits and total shareholder returns. Like many other global businesses, it is important for HSBC to find new markets so it can continually grow and increase profits to avoid being taken over. As research shows, it cost 5 times more to find new customers than to maintain current customers. HSBC demonstrate this as they provide a wide range of financial services to existing customers and also through expansions into new market segment.

#### 3.2 Acquire Resources and have access to Technology

As HSBC gains access to the latest technology, it assisted in the production of the businesses, leading to an increase of efficiency and effective production. By integrating technology into its daily operation, it has enabled HSBC to globally manage their operations, as more then 90% of HSBC transaction are originated from cards, self service, call centres and the web. HSBC have based their businesses at London, which is renowned for its expertise in the banking industry, by adapting and utilising its expertise, HSBC is able to continuously improve its service to achieve goals, as well as sustaining a high return to its shareholders. In recent years, HSBC have increased their spending on technology from US\$ 1 billion to US\$ 4 billion, which allows it to take full advantage of its economies of scale and reduce cost to customers. This investment allowed it to improve services and enhance the customer experience over a range of global markets, thus increasing global revenue and market share.

#### 3.3 Diversification / cushioning economic cycle

Diversification is another reason for HSBC to expand and operate in the global market. It allows HSBC to expand the range of goods and services it offers. Diversification allowed HSBC to hedge risks as it ensured that income don't come from a single economy and a single product. It is important for HSBC to diversify as it makes it less susceptible to competitive and economic threat in any single market. HSBC is diversified both geographically and in customer groups; it operates in more than 88 countries, providing comprehensive range of financial services to personal, commercial, corporate, institutional and investment, and private banking clients.

### **3.4 Minimise Competitive Risk**

International expansion permitted HSBC to insulate it from problems that may arise from one market. Greater access to global market ensures that HSBC will be cushioned from sudden changes in the economic cycle, as it can still generate profit from other country. If HSBC only produce products for one single market, it faces greater risks and challenges when competitors enter this market. When HSBC operates in the global market, it is at better position to minimise risk as competition intensified. In 2005, HSBC was rank 5<sup>th</sup> largest of the world's leading 2000 companies, operating in 88 countries, providing quality local services, as well as emphasising its extensive global network has allowed it to minimise competitive risks.

### **3.5 Economies of Scales**

Economies of scales refer to cheaper average production cost decrease the volume the production increase. This is another reason for HSBC to operate in the global consumer market, as the average production cost decrease; HSBC is able to increase its profit, which can be used to invest in share, property to increase wealth for its owners and total return to shareholders. Economies of scale is experienced as they can source their factors of production from many other countries, ensuring they are acquiring the best resources that are available, as well as being updated about the current trends in the industry and gaining access to technology, which could further increase economies of scales.

### **3.6 Regulatory differences and Tax Minimisation**

Another reason for HSBC to operate in many markets is that each market has different regulations which allow HSBC to save costs. The differences in labour standards, ownerships law, competition law, company taxation rates can significantly affect the cost and benefits of international expansions for HSBC. Many businesses tend to operate in markets with a low company tax rate, Hong Kong has a low company tax rate of 17.5 %, where as Australia has it standing at 30%. HSBC has taken advantage of the low tax rate of HK, as 330 offices are set up there, where as Australia only have 34 offices.

Whilst this suggests that businesses are attracted to countries with the lowest wage level, poorest working conditions and weakest environmental standards. However HSBC conduct careful market research before setting up in a new market, to ensure it has an educated workforce, stable government and economic potentials.

## **4.0 Methods of expansion**

HSBC has undertaken international expansions in many ways including exporting their goods and services to another market, Foreign Direct Investment, establishing additional production facilities.

### **4.1 Exports**

Exporting the goods and services of HSBC to a foreign market is the simplest method of international expansion. It is one of the most frequent use international expansion methods, as it widens HSBC's potential market; allow it to test the willingness of foreign customer to but their products. It is associated with less risk than other form of international expansion.

### 4.1.1 Selling to other distributor

HSBC can sell their goods and services to a distributor in a foreign market, who then can sell these goods to retailers and customers. The main advantage of this is that businesses will not fail if this product doesn't sell, as the distributor has already paid the businesses. However, producers will lose control on functions such as marketing, as the distributor may have different marketing objectives than the businesses. This is because the businesses aims to establish a sound image in the foreign market, where as distributor may only want to sell the products quickly so it could generate profit.

### 4.1.2 Own distribution channel

Businesses can also establish their own distribution operation in another country, these way businesses are able to control important function such as marketing and directly influence the success of the product. However this method leads to substantial cost, increasing financial risks for the businesses. HSBC use this method to export their financial and banking services to different country, as HSBC believes that each market is different from each other, and that they must alter their products to best suit its potential customers. HSBC is less likely to sell their services to a distributor, as distributor may have a different attitude, value and motif of HSBC and may lead to the failure to achieve 'The World's Local Bank'.

### 4.1.3 Complex value Chain

Most Transnational Cooperation's have complex value chains that include considerable trade. One divisions of the TNC might export raw materials to other divisions in another country, who then transform inputs into final consumer goods. These goods could then be re-exported to another country for sale. This internal export, allows TNCs to utilise resources of each country and to product the best quality product at the minimal cost. It also allows each division to focus on one or two task, allowing the businesses to be more increase productivity, efficiency.

## 4.2 Foreign Direct Investment

Foreign Direct Investment (FDI) refers to the establishment of new businesses or purchases existing businesses in another country. Home country is where the investment funds come from and the destination of the FDI is known as host country.

HSBC conduct FDI in many countries such as Brazil, India, China, and UK. FDI is a better expansionary method than just merely exporting goods and services as it allows the businesses to have greater control over its operation and allows the businesses to achieve vertical integration, where more stages of production are controlled by one business.

### 4.2.1 Merges and Takeover

Since 1950s HSBC has pursued the strategy of expansion through FDI, including opening branches in new markets and buying existing banks. In 2004, HSBC bought 19.9 % of the Bank of Communication Limited. It is the fifth largest bank in China, and is one the only one of the fifteen banks with a national banking license, giving it the ability to operate without geographical restriction. It has over 2000 branches across 137 of mainland China's wealthiest cities. For HSBC, this investment provides the Group with a new window for developing the businesses in China. In return, HSBC would offer Bank of Communication the opportunity to draw on the businesses international expertise and network. This investment is vital for HSCB to build its network in China. This investment offers a mutually beneficial relationship between two strong banks. FDI has allow HSBC to become the 5<sup>th</sup> largest world's leading 2000 companies, this growth has helps HSBC in several ways, e.g. allowing to invest in cost saving technologies and to spread its risk.

A second way for businesses to carry on Foreign Direct Investment is by acquiring an existing operation in another country. The benefits of this, is that the business already have track record, steady profit, a good reputation with customers and suppliers, as well as having experience skill workers. However the business may not have the same business culture as HSBC, causing conflicts between management and employees, which would affect the businesses productivity, efficiency and profitability.

#### **4.2.2 Greenfield Investment**

An international Greenfield expansion occurs when a domestic businesses builds a new facility in a foreign country. When HSBC carry out Greenfield investment, it provides advantages such as HSBC is able to start fresh in a new country, choose the most appropriate location for the business and develops its own organisation structure and culture. However this type of FDI is risky, as HSBC might have limited experience operating in this country, choosing the correct site, hiring the right employees, and dealing with foreign government and local businesses. This is the major reason behind HSBC market research, it is conducted every time before they operate in a new country, ensuring there are economic potential, educated work force, and a stable government, which are all essential for a businesses to succeed in a foreign country.

#### **4.2.3 Joint Venture**

HSBC has undertaken Foreign Direct Investment via joint venture, it involves the alliance of two or more businesses to invest in a jointly owned businesses. This business is a separate entity from both businesses. The newly established business can be managed in different ways. Parent business can appoint employees to report back to them on specific bases, or one of the businesses can be appointed for the managerial responsibility, or some business may hire an independent consultant to manage the business. This method of international expansion is becoming popular, as it allows both businesses to share risks and pursue opportunities. This type of investment usually occurs between foreign businesses investing in a local business in the host country. This is because it allows the two businesses to share their expertise, as the investor will have the financial capital and advanced technology; where as the local business has greater local knowledge on the country's specific factors such as the attitude and taste of the consumers and local government laws. However when there are conflicts between the objectives or cultures of the parent of the new operation, change in the economic cycle or political circumstances might affect the parental businesses' commitment to the joint venture, leading to failure of joint venture.

#### **4.3 Relocation of production**

Another method of international expansion is relocating its production by transferring existing operations overseas or establishing new operations in another country. Relocation might be costly, as businesses have to find the appropriate and suitable site for production and it requires a considerable amount of financial capital. However relocation of production might be cost saving to business, as it relocate its production, it can save on labour costs, cheaper raw materials, or owner company tax rates.

HSBC has obtained significant cost saving by relocation its operation, and globally managing its operations. For example there are 3 treasury centres and 5 IT centres which works for all of the branches. Many aspects of marketing are globally managing, not only it is cost saving, but there are also a common standard and reputation created for the whole business. This is important, as it mean customers will receive the same level of customer services in all branches, and that the business has a common marketing objective, to be 'The World's Local Bank'.

#### **4.4 Management Contract**

Management contract is where a business receives a fee in return for its managerial or technical expertise. This allows the business to receive technical and managerial expertise, while retaining greater control on the day to day operation of the business.

#### **4.5 Licensing/ Franchising**

Licensing is another method of international expansion, where the owner of the brand or business sells the rights to produce/distribute the good to a different business. The business that sells their brand name, not only receive an upfront payment, as well as royalties over a period of time. The business that buys the license will benefit from the sale of the goods, the research and development, marketing expertise and long-term reputation provided by the licensing business.

There are different way of managing a business, when there are conflicts arising from the two parties, it will jeopardise the business's reputation, productivity and long term profitability.

#### **5.0 Specific influences on the business**

While international expansion opens up to a world of opportunities, it also exposes HSBC to external influences such as financial, political, legal, and social influences. These factors influence the way HSBC operates in different countries, as well as the cost of operation.

##### **5.1 Financial Influence**

When trading internationally, HSBC is influenced by the fluctuations in exchange rate and interest rate. Exchange rate refers to value of one's currency compared to another country; how much it cost HSBC to trade in that currency. Appreciation and depreciation of the exchange rate will influence the value of the investment, if Australian dollar appreciates, Australia business will benefit, as there is a reduced of cost in purchasing the investment, which would increase the incentives for the business to purchase goods and services from another country. Whereas when the Australian dollar depreciates, Australian exporter will find it cheaper to export, and increase the demand for sales globally.

###### **5.1.1 Currency Fluctuations**

Although fluctuations of the currency are hard to predict, HSBC monitors and attempt to predict the trend of fluctuations to avoid losing funds. As a global international business, HSBC is heavily exposed to the foreign exchange market; it has considerable influences on its performances reported on its balance sheets. This is because the appreciations and depreciations of foreign currency will ultimately affect the value of its assets and liabilities.

###### **5.1.2 Interest Rate Fluctuations**

Interest rate is another financial influence that affects the performance of international business. Interest rate is the cost of borrowing, the percentage of the loan the business pays back periodically, monthly, quarterly, or annually. It has significant influence in business performance, as the value of interest rate varies due to the appreciation and depreciations of the currency. International business must ensure the business is not only able to repay the interest rate at the current exchange rate, but also when the domestic currency increase. HSBC is influenced by the low interest around the globe in recent years, which has promoted lending for real estate purposes. As a result it has broaden its product range such as introducing retirement planning package, and high interest rate accounts for saving, and low borrowing rates.

### 5.1.3 Overseas Borrowings

Another way that HSBC can be financially influenced as it may obtain capitals from the overseas market. HSBC might be involved in overseas borrowings is that there are lower interest rates in other countries, or there are insufficient capital in the domestic market. Historically, Australia always have a low saving ratio, as a result HSBC might find it difficult to obtain external funding, hence expose itself to interest rate risks and exchange rate risks, as it borrow from the overseas market.

HSCB is volatile to interest rate risk and exchange rate risk, as it operates in many different countries. As in recent months, the second wave of Global Financial Crisis hit Europe, in particular Greece. As a result not only the share prices dropped in Europe but also in regions such as London and New York. This is an example of how an international business can be influenced by the economy of one country; the circumstances in one country ripple towards other branches and subsidiaries.

## 5.2 Political Influences

International business such as HSBC is politically influenced as regulations and laws imposed by local and foreign government on issues such as wage, contract, taxes will impact the revenue and expenses of the business.

### 5.2.1 Tension between protectionism and free trade

Trade plays a critical role for business which wishes to undertake international expansion, it creates significant wealth. Each country has products and services that it is best at producing, due to factors endowment, such as cheaper labour; more advance technology, greater access to raw materials. As a result many economies have undergone structural change; some countries have policy to protect its domestic economy with foreign completion. This is exemplified in the financial industry prior deregulations in 1980s in Australia, where local banks are protect against foreign competitions. Since deregulations in the banking industry, it increases the choices of consumers, greater completion leading to better products and services. Other form of protection could include tariff, subsidies, quotas, local content rule, embargoes etc.

However some countries adopt the policy of free trade, where internal trade that is not restricted by government- imposed restrictions. Free trade allow the country to gain better access to goods and services that they were previously denied tom and a more efficient allocation of resources. This is because the country would use all its resources to produce goods and services that it has a competitive advantage.

### 5.2.2 International Organisation

Trading globally creates problems such as instability on financial market, the risk of global financial collapse, economies experiencing economic crisis. World Trade Organisation (WTO) is one the most powerful international organisations, its role is to implement and advance global trade agreement between countries, and solving trade disputes. The WTO was established in 1995, with the power to enforce trade agreements around the world. When a country believes it is suffering from another country action as they are unable to compile to its WTO obligation can lodge a complaint to the WTO.

### 5.2.3 Trading Blocs and Agreements

Trade agreements are formal agreements between nations regarding trade and exchange. Countries sign trading agreements to ensure they are in the best position to gain from global trading. This can affect HSBC trading in the global market as the country HSBC wish to operate in or invest in may have a trading agreement which restrict it from dealing with business from that country. Trading blocs occurs when a number of countries join together in a formal preferential trading agreement as the Asia-Pacific Economic Cooperation Forum (APEC), European Union (EU). Countries which sign trading agreements believes that encourages free trade with participating members, enables specialisation for member nations, increasing trade and expanding business opportunities, increase the range of choice for customers, as well as decreasing prices for consumer.

### 5.2.4 Regionalism

Regionalism is the expansion of trading agreement among geographically closed regions, such as Australia and New Zealand, it allows member countries to trade with each other without restrictions, and it is different from other trade agreement, because it allows capital and labour to be moved freely within the region, and it creates a common market. HSBC might utilise the regional trade agreement between Australia and New Zealand to source its employees from New Zealand, or to enhance work experience by transferring employees between Australia and New Zealand. This would allow its employees to be comfortable with changes and develop their skills and knowledge.

### 5.2.5 War and civil unrest

Civil unrest refers to an unstable political and social environment, which obvious prevent the expansion of HSBC. Civil unrest reduces potential investor's incentives and confidence to invest in a country, as it has an unstable political and economic environment; investors would want to invest their capital in countries where there are laws, regulations and political stability. The civil unrest in Thailand in recent months, have led to many business postponing their investment to Thailand-Bangkok, the civil unrest not only prevent foreign capital to invest in the country, also prevent domestic business to export their goods and services. HSBC is politically influenced by civil unrest, during civil unrest may lead to bombing of office. In 2003, a bomb blast in Istanbul destroyed the head office in Turkey, as a result HSBC sets up limited branches and subsidiary in country are constantly under political instability. As seen in the following table, countries that have a political stable environment have more offices that then ones that are considered politically unstable.

Region	Number of Offices
Hong Kong SAR	330
Australia	34
Iraq	17
Pakistan	12
Thailand	1

## 5.3 Legal Influences

Different countries have different regulations and the way its legal system operates, these differences are critical to the success of HSBC that operates in that country. HSBC must be aware of the difference in the legal system, regulations and law in the country it wishes to invest in. As breaching the laws and regulations may not only lead to financial cost but also an unrepairable reputation.



### 5.3.1 Contracts

Contracts are legally binding agreements between two parties, when two parties are operating under the same legal system, any disputes and disagreement can be solved under the same set of laws. However, international business goes under contracts with parties operating in a country that has a different legal system, it is hard to determine which country's law it should operate with. This difficulty can be overcome by 'choice of law' clause- whereby both parties agree to insert a clause explaining which law governs the contract.

Another way to overcome this legal issue is the UN Convention on Contracts for the International Sales and Goods (CISG), which outlines uniform laws that apply to most contracts for the trade of goods between countries that have agreed to the convention. However, this is not the best method to solve legal disputes between the parties, as it is not binding to most private businesses; hence it is the most effective and efficient way to solve the choice of law issue.

HSBC is heavily legally influenced as local laws and regulations such as those associated with labour, contracts, dispute resolution and intellectual property. Any changes to local laws and regulations can impact on HSBC revenue and costs. The rise in minimum wage and increase in superannuation contribution in Australia adds significant costs to the operation of HSBC Australia.

HSBC has increased its investment in China, as it believes it has economic potential, hence attracts foreign investment and an educated workforce. As it operates in China, it is bound by the laws and regulations of the Chinese government, as the Chinese law states foreign banks to issue credit cards with a partner and that consumer loans to domestic consumers have been off-limits to foreigners.

### 5.3.2 Intellectual property

Intellectual property refers to ownership of rights to creative works and original ideas such as written work, designs and patents, trademarks and logos. Since 1992, HSBC has unified its logo, values and principles around the world, preventing other businesses from using its name. It is essential for businesses to recognise the importance of registering their intellectual property as it prevents other businesses from using their name to perform unethical acts. As these damages to the business reputation are unrepairable, they have a permanent long-term effect on the business.

## 5.4 Social and cultural influence

HSBC operates across the globe in countries that have many different languages, tastes, business practices and religions. Businesses are heavily influenced by these deeply rooted social and cultural differences.

### 5.4.1 Languages

Language is one of the most noticeable differences between cultures; these not only include verbal communication, but also non-verbal communication such as body movement, facial expression and gestures. Misunderstanding in the communication process can lead to misinterpretation between HSBC and its stakeholders. For example, in most western countries it is rude to not look at someone while speaking to them, however, in most countries it is rude to look into a person's eye during conversations. HSBC must inform and educate its workers to ensure that minimal misunderstandings occur.

HSBC employs people from diverse backgrounds, which allows HSBC to provide its customers services in different languages. It also brings HSBC extensive local knowledge and understanding of a range of cultural practices.

### 5.4.2 Tastes

Taste refers to the preferences of consumer to choose one product over another. When HSBC operates in the global market, it is faced with different range of taste, which may influence the success product of the product and service. Product differentiation is required by HSBC which operate in the global market, it allow consumer to distinguish their product form others, differentiation can be in forms of packaging, after sale service, or explicit customer service. However it is important for HSBC to develop a **thorough** understanding of the culture before it launches its product.

HSBC markets itself to be 'The World's Local Bank', demonstrates its understanding the extent of cultural influences in consumer's purchase decision. HSBC concretes its understanding of the local environment as it employs globally rooming employees which have a rich cultural knowledge of the country.

### 5.4.3 Religion

Religion has a profound influence on its followers, it influences their value, morals, and ethics, and perception of a particular business or country. HSBC must be aware and adapt to the different religions represented in its labour force and its consumer base. It is vital for business to demonstrate understanding in the strong religious influence in countries such as China, Indonesia, and Brunei.

HSBC has respond to religious difference among countries by providing Islamic Law compliant product for Muslim communities. HSBC has appointed William Ross as Co-Head of Islamic Finance where he and his team embed Islamic elements into global infrastructure capital flows and tailors financial solutions that meet Shariah standards. This allows HSBC to be **reputed** as global business that is more than making a profit.

HSBC also encourage the celebration of different religion within the business. The acceptance and celebration of different religion has allowed employees to feel sense validity and the understanding form management can create a more harmonious working environment. According to behavioural management theory, employees are more satisfied with non-financial rewards; a more harmonious working environment will encourage higher productivity and fewer employees leaving the business. In the long term, it is beneficial to HSCB as it allows it to save cost on retrenching employees and constantly training new staff.

### 5.4.4 Varying business practices and ethics

Business practices and ethics refers to the way business operates in a particular country, it is their norms, set of morals and what they consider as an acceptable practice. It is important for business to recognise the difference business practice and ethics in different countries. As some countries have a different business ethics, without a deep and explicit understanding of the differences between the two country may cause conflict, or even failure of the business in that country. HSBC believes that as a international emerging bank, it has the responsibility to manage the business across the world for the long term by making a real contribution to social and economic development, and protect the environment at which it operate in. HSBC continues to provide financial services that are competitive, transparent and responsive to customer's need.

For example in Australia, businesses believe in a fair go and customer satisfaction is essential. However, many businesses in Asia countries believe that making profit is the only measure of success, to the extent that working condition and the degradation environment can be ignored. When businesses operate in the global market, it must ensure it develops a balance between its own business practices and ethics with what the country's perception of business practice and ethics.

In order to manage its global operation, and ensuring different branches is adhering to different business practices in a variety of country, HSBC has provided its employees an information booklet. This booklet aims to educate is globally rooming employees about the varying cultural and business practices that they may encounter.

## **6.0 Managing global business**

In the complex contemporary global market, the constant changes in the business environment will lead to HSBC encounter challenges that even some of the most experience managers have never seen. Financial management, structuring operation, marketing the global brand, and dealing with globally rooming employees are some of the challenges that global business manager in HSBC must encounter.

### **6.1.1 Financial Management**

As a global business, HSBC faces many financial management issues, as there are different currencies between countries, different level of credit risks, obtaining finance. One of the major management matters is the methods of payment. The objective of HSBC market risk management is to manage and control market risks exposure in order to optimise return on risk while maintaining a market portfolio that is consistent with the Group's status as one of the world's largest banking and financial service organisations.

### **6.1.2 Methods of Payment**

Clean payment is a payment allowed for customer to pay the business as soon as the good and service is delivered. There are no credit facility given to customers, it is beneficial to the business as it removes credit risks, yet it may be resisted by customer. This occurs in a daily bases in HSBC, when customer wishes to deposit there are no credit facility given to customer.

Open account payment allows HSBC customers to accumulate a short term debt to the business that must be periodically settled. HSBC provides open account payment to customers via the issue of credit cards, it allows customer to pay its short term debt periodically. It manages it credit risk by conducting careful research about the customer's ability to repay its debt before issuing credit cards. This service is provided to HSBC customers with the charge of an interest rate.

Documentary collections occur when banks take on the role of intermediaries in the payment process. HSBC act has intermediaries for between many consumers and business, as it provides its customer transaction services. It allows its customers to transfer money not only from their account to the account they need to pay for, but also to the account that they may have in other countries.

### **6.1.3 Credit Risk**

Credit risks are risks that arise because foreign business's payment may be uncertain or hard to determine. In HSBC it arises from the failure of a customer to meet their obligations under a contract. It arises principally from lending, trade finance, treasury, and lending activities. HSBC has dedicated standards, policies and procedures to control and monitor credit risks. When dealing with lending it is focused on the ability of the customer to repay rather than the amount of securities offered.

It is important for HSBC to inform its customer the risks they are exposed to when they make a particular investment with the bank. As a result in 2009, HSBC, in Lebanon conducted a presentation to inform 1000 customer groups and global business on the risks and opportunities presented by climate change. It has also established a working group to assess risks to the business and customers of the global financial meltdown. In addition, credit derivatives including credit default swaps and structured credit note, and securitisation structures are used to hedge or transfer credit risk within the group's loan profile.

#### 6.1.4 Hedging/ Derivatives

Hedging is any financial practice designed to reduce risk, which is used to offset any potential change in asset price. Derivatives are commonly used to hedge risk, as these financial instruments are created by the existence of another asset. Futures, forwards, swaps, and options are used by HSBC to hedge risks.

At HSBC, liquidity policy is designed to ensure that all commitments can be met out of readily available and secure source of funding. Funding policy seeks to ensure that the necessary sources of funds are available at an optimised cost. The management of liquidity and funding is carried out locally in the operating companies of HSBC. This is because it is HSBC liquidity policy that each legal entity should be self sufficient with regard to funding its own operation. This liquidity policy allows HSBC to ensure that as a global business it is less susceptible to changes in the global environment.

HSBC, through the dealing operations of its subsidiaries, takes position in the market and acts an intermediary between a board ranges of users, structuring deals to products to suit customer needs, these products include; Dual Currency Investment, structured products, and stockbroking. As well as acting as a dealer, HSBC also uses derivatives such as interest rate swaps in the management of its own assets and liability portfolio and structural position.

Interest rate swaps are the principle products used by management at HSBC to manage interest risk. It involves the exchange of interest rate obligation with counterparty for a specified period without exchanging the underlying or notional principal. The primary objective of this exchange is to limit the potential of negative effects on net interest incomes.

#### 6.1.5 Insurance

HSBC provides insurance service for its customers which most of the services provided complements the product of other banks and other consumer financial product. The group chooses to manage its exposure to insurance risks through the use of third-party reinsurers, the associated revenue and manufacturing profit is ceded to them.

HSBC's exposure to risks associated with manufacturing insurance contracts in its subsidiaries and its management of these risks are discussed below. Where the Group considers it operationally more effective, third parties is engaged to manufacture insurance products for sale through HSBC's banking network. The Group works with a limited number of market-leading partners to provide the products. The control framework for monitoring risk includes the Group Insurance Risk Committee, which oversees the status of the significant risk categories in the insurance operations.

#### 6.1.6 Obtaining finance

The growth in the international financial market means businesses are subject to more access of capital, in terms of profundity and flexibility. It allows HSBC to search around the globe for most suitable place to obtain its financial funds, by listing on the stock exchange in London, Hong Kong, Paris, America etc have allowed HSBC to increase the ease with which equity finance can be sourced, and increase liquidity.

This allows the business share prices to varied from one country to another, as they are separate entities, it hedge financial risks for HSBC, as their share price doesn't stand of one economy's performance. As seen in the following diagram, the value of HSBC shares varied from one country to another. The country which has a better economic performance their price is independent from the prices of other subsidiaries.

### Share price

London GBP	6.30	-0.09
New York USD	45.30	-1.26
Paris EUR	7.59	-0.11
Hong Kong HKD	73.50	+0.60

(Prices delayed by at least 15 mins)

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## 6.2 Marketing

Global marketing is an extension of domestic marketing across national boundaries. HSBC standardizes many elements of the marketing including brand name. This allows HSBC to gain economies of scale from a global marketing mix.

HSBC also differentiates its marketing approach within countries to meet the needs of local customers so some local product differentiation occurs. This is consistent with HSBC's positioning as 'The world's Local Bank'.

### 6.2.1 Research of market

Market research in overseas markets needs to be intensive as HSBC might not be familiar with the culture and market attributed in the overseas region. In these circumstances HSBC may need to consult with local authorities or marketing experts in the region. Under these situations, secondary data will often be used as they incurred less cost than primary data collection, particularly when the business is fresh to the region and do not have extensive research capabilities available.

HSBC conduct careful market research in the markets it wishes to operate in, to ensure it has a stable government, economic potential and educated workforces. By conducting extensive market research prior investment in a country, has allowed HSBC to save cost, and ensured it has a sound reputation presented to its consumer. As incorrect investment decisions may lead to consumer to invest in other banks.

### 6.2.2 Global Branding

International business must make the crucial decision of whether to use the same name across all its operations or different names. Although operating under the same name, the business may benefit of saving cost as global marketing is cheaper than separate domestic marketing. However it must be careful that its name has not been used in that country, as well as the name doesn't symbolizes or suggest something rude in that language or dialects.

Since 1959, HSBC has expanded rapidly and series of acquisition by the group allowed effective expansion in the organizing, but also caused the group to operating different names. Although the same logo was used, few people recognized HSBC internationally.

HSBC senior management wanted the Group to be recognized as one entity as there were perceived benefits to having one recognized and respected global brand providing for local banking needs and the needs of transnational businesses and individuals moving between countries existing logos acquired bank were converted in 1996 to the HSBC Group hexagon. As a natural progression in 1999 the HSBC + hexagon brand was adopted across the group and all historic names of banks changed.

The HSBC brand is now recognized around the world and the bank continues to develop its motto 'The World's Local Bank'. In 2009, it is ranked the 28<sup>th</sup> most valuable global brand.

### 6.2.3 Standardization and Differentiation

As a global business, HSBC must consider whether it would standardize or differentiate its product. In such a globally competitive environment, businesses often adapt their products to suit local tastes or in order to gain a competitive advantage over their rivals. In such circumstances, HSBC has made the decision to modify its products in order to meet foreign legal requirements. Whilst HSBC might prefer to use a generic product across international markets to keep costs down, they must take into account the benefits that could arise from differentiation.

Many global business attempts to combine elements of both strategies, competition, customer need of the overseas market will influence a business's decision of whether to standardize or differentiate its products.

Although HSBC differentiates its products, it standardizes its marketing strategies between the business and Travelex. Travelex and HSBC have an agreement to provide foreign currency, Travelex Cash Passport products, traveler's cheques, and other foreign exchange products to customers in retail implements set up in selected HSBC branches across Australia.

The partnership allows HSBC customers to benefit from the expanded products and services that Travelex supplies and may also result in non-customers being attracted to participating branches. The success of the business partnership and model operating in Australia for 4 years was the reason for HSBC NZ launching Travelex retail implants in selected branches in 2005.

The New Zealand agreement has extended the business partnership that exists in Australia and allowed New Zealand to benefit from the proven success of the Australian model. It is an exceptional example that demonstrates the marketing beauty that can occur through being a part of global business that shares marketing information and strategies.

## 6.3 Operations

The complex nature of global business' operation allows the business to gain competitive advantages over its competitors. However this is only experienced if the operation of the business is managed effectively and efficiently.

### 6.3.1 Sourcing

The key issue for a business organizing its global operations is sourcing of inputs into production such as labor, raw materials, and capital. Sourcing policies can be used by businesses to gain competitive advantage over other businesses, by obtaining the inputs to production that are of the highest quality at the lowest cost. HSBC has obtained some of the highest labor resources by offering universities graduates an opportunity to work in HSBC, this not only allows HSBC to distinguish their performance but also an opportunity to bring on energetic young employees to the team.

An organisation that has achieved a high degree of vertical integration will allow it to have a greater control over its value chain, and more decisions to make about where to locate its function. HSBC has obtained significant cost by globally managing its operations. There are three treasury centers and five IT centers conducting work for operations in 88 countries and territories.

The make or buy decisions in HSBC is made by senior management, and that only marketing is outsourced to WPP (Wire and Plastic Product) to provide its creative advertising, media and direct marketing services worldwide.

### 6.3.2 Global Web

Global web are the networks and array of businesses used by TNC to obtain its supplies for production and operations. HSBC is a decentralised operation, where employment relation function is more likely to perform within an individual country. Managers who are more tightly entice to the subsidiary will be more aware of that is required to attract and retain high quality employees. This is because people from different country are motivated by different rewards.

No matter how a global business is organised, the biggest challenge facing such large businesses is to avoid the problems typically associated with hierarchical business structures such as bureaucratic chains of command and poor communications between senior managers and individuals employees.

### 6.4 Employment relation

When global business effectively manages its employment relation, it ensures that the relation between employer and employees is effectively managed. As effectively managed employment relation develops competent, flexible and productive employees whom are committed to the business. The effective management of employment relation function is usually measured by the level of conflict, the quality of product or service, or benchmarking.

When HSBC acquiring a place to develops its globally managed operations such as call centres, it conducts precise market research to ensure all requirements are accessible and available. HSBC understands that the quality of employees us vital because banking is an internationally competitive business. It understands it cannot compete without globally rooming employees so it ensures it acquaint, develop, maintain the employees who are contributing positively to the success of the business.

#### 6.4.1 Organisational structure

One of the most difficult decision the HSBC mangers is to decide how to structure their organization when they have production facilities and consumer markets in different part of the world. HSBC have adopted management style that is quite different to most international business, where majority of its operations are conducted within the country, it is only treasury centers and IT centers that conduct work for the operations in 88 countries and territories. As a worldwide and local organisation it operates with the same principles and values everywhere- 'The World's Local Bank'.

#### 6.4.2 Staffing

A diverse workforce is emphasized in HSBC; it believes respect for other cultures is a prerequisite for the international organisation. It actively looks for labor resources that show cultural sensitivity and emphasizes the need for such sensitivity at all level. There are three levels of staffing model; ethnocentric, polycentric and geocentric.

Diversity is the central of HSBC brand, it believes the global business market is a rich and diverse place full of interesting cultures and people, who should be treated with respect and from whom there is a great deal to learn.

HSBC employs and manage diverse people, it gives HSBC a more rounded and balanced organisation and allow it to be more adaptable and flexible to new and challenging situations. This is not simply about gender, ethnicity, disability or age' it is also about open mindedness, embracing non-conformity and creating balanced team. HSBC believes that respect for individuals of all types will inspire loyalty in both employees and customers, which will have a direct line of sight to the achievement of business goals.

HSBC is a global organisation that understands our local populations and values the diversity of the markets that it operates in. It needs to reach out to all parts of employment and customer markets, existing and potential, for maximum productivity and value. It is by going beyond matters of compliance that valuing and managing diversity becomes a competitive differentiator, enabling it to leverage the opportunities that this can offer HSBC has adopted a more contemporary style of employment management as it believes that the most important competitive differentiators are the quality of individual service it provides to its customers and the way it treats its employees

### **6.4.3 Shortage of skilled labor**

Shortage of skilled labor is often one of the reasons for international expansion; although this doesn't apply to HSBC, it continues to face shortage of managers with sufficient expertise and experience in Australia.

As an expanding global organisation, HSBC is always in shortage of a group of highly talented, internationally mobile managers capable of working in any part of our business, in any location. HSBC's International Managers (IMs) have helped to shape the HSBC Group's development ever since it was established in 1865 and are a pivotal part of its future leadership

### **6.4.3 Labour Law Variation**

An important consideration for HSBC is the difference between the differences between the labour laws in different countries. If HSBC doesn't meet the standards of local labour laws it can face great financial penalties. In wealthier and more developed nations, such as Australia has more comprehensive labour laws regarding minimum pay, and working conditions. The compulsory superannuation in most western nations has increased operation cost for most businesses. Less developed nations particularly in Africa and Asia, usually have weaker labour laws because they are in an earlier stage of industrialisation. Although there are major criticisms of global businesses are that they tend to relocate their production facilities and operations to less developed countries that have the lower wages and the weakest labour laws, with the intention to minimise operation cost, as labour accounts to 60% of operation cost. Many global businesses have argued that this is simply in their best interests, but in some cases working conditions and employees have been exploited.

HSBC, unlike other global businesses have its product location at the country that subsidiary is working in, as products are developed to suit the needs of that country and may not be applicable to other country.

### **6.4.4 Minimum Standard of Labour**

Labour standards refers to the benchmarks, generally set by the International Labour Organisation, it prescribes the minimum working standards for employees. It is likely that many nations, particularly the less developed, are likely to oppose such standards because it reduce their competitiveness in the international arena. This highlights the ethical aspects of managing a global business, that it should not only be profit motivated, but also consider the impact of their action, and be aware that it has significant influences on the economic and social development of countries.

Headquartered in London, HSBC is one of the largest banking and financial services organizations in the world. The Group's international network comprises around 9,500 offices in 86 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

HSBC is a signatory or has publicly expressed support for a number of international codes including UN Universal Declaration of Human Rights, UN Global Compact, and Global Business Coalition on HIV/AIDS, Global Sullivan Principles, and OECD Guidelines for Multinational Enterprises and Equator Principles. HSBC has participated ethically and lawfully when operating in the global market.



### 6.4.5 Staffing System

There are three major ways a business can structure its staff in foreign markets; ethnocentric, polycentric, and geocentric.

Ethnocentric staffing model is when HSBC tends to favour people from the business home country. HSBC only employs this staffing model at certain time, e.g. when first establishing in a new country, this is done to ensure that the policies and values of the group is upheld.

Polycentric staffing model is when a business gives preference to people from the host country for local managerial positions. HSBC employ local managers who often know their market best. This staffing model helps HSBC to achieve its managerial philosophy 'The World's Local Bank'.

Geocentric staffing model is when business tries to fulfil positions based on the merits of employees regardless of its country or origin. HSBC overall employment relations philosophy is to ensure the best and most suitable person is acquired, developed, maintained and rewarded on performance regardless of race, gender or age.

### 6.5 Evaluation and Modification of Strategies

HSBC uses a variety of management strategies to manage its operations, these strategies must be evaluated and modified at regular bases to ensure that the strategies remain relevant and are assisting HSBC to achieve its target. Adjustments to financial, marketing, operations and employment strategies will help HSBC to meet expectations and need of the rapidly changing global business market.

HSBC has ensure it is maintain and show initiative for its globally rooming employees, as each year the Global People Survey acts as a barometer for employee engagement and satisfaction. With a 91% response rate in 2009, HSBC employees take the survey seriously. In 2009, 77% of employees said they felt confident that HSBC is moving in the right direction and 83% said that they were proud to work for HSBC.

By listening and acting on employees feedbacks, allowed HSBC to move forward, and continue to modify its strategies to ensure it is in the best position to gain from the growing international financial market.

HSBC evaluates and modifies its financial strategies by conducting risk management and sustainability report. Sustainability Report is written for institutional investors, customers, non-governmental organisations and others with a particular professional interest in HSBC's approach to sustainability. This report focuses on the specific environmental and social issues that contribute to the sustainability of HSBC, and were of interest to our stakeholders in 2009.

By conducting risk management and modifying its strategies, HSBC has introduce 'Sector Policy' in 2009's sustainability report, where it allows HSBC to provide guidance on managing the social and environmental impact towards HSBC and its stakeholders.

Overall, HSBC evaluates it strategies by setting goals at the beginning of the period, by monitoring the strategies throughout the time frame, and comparing the goals set to what is actually perform. HSBC is able to evaluate the effectiveness of its strategies. In 2004, its 'Forestry Sector Policy' aims to encourage and support its customers over a five year period to obtain independent certification that there activities were legal and sustainable. At the end of five year period, HSBC is able to achieve its goal, as 98% of its customers are able to achieve legal and sustainable activities. By setting specific, measurable, achievable, realistic and timely (S.M.A.R.T) goals, HSBC is able to evaluate its managerial strategies.

## 7.0 Management responsibility in a global environment

As mentioned before, actions of global business have strong influence on a countries' economic and social development, hence it must be considering the consequences of its actions. Business must generate profit to survive in the completive global market, but it is also essential to contribute positively to the environment and society it operates in. HSBC is mänge to excel in its financial performance but it also act socially responsible in the environment it operate in, including participation in Earth Hour, investing in renewable energy in UK, transferring of HSBC car in Brazil to duel fuel to support Brazil transition to low carbon economy. It also provide social welfare service such as 'Young Entrepreneur' in Sri Lanka, which helps street children and orphan, giving them an opportunity to receive an education and be able to survive in the mainstream society, also oung programs such as 'City Of Youth' in Brazil' , where funding provided by HSBC is able to help to transform life's of many homeless young teenagers ages from 8 -18, since October 2008, the Future First funding from HSBC have enabled 225 resident students being cared for at the centre and 38 of them have successfully moved into independent living. In addition, vocational training and job placements have been provided to 350 disadvantaged children living in the surrounding communities.



Young Entrepreneur in Sri Lanka



'City of Youth' Brazil

HSBC has established a cooperate image of not only providing a wide variety of financial service, but also actively involving in community work and donating funds to help emerging economies to improve the standard of living. There are also ethical issues surrounding employment practices and working conditions. Businesses incest abroad to gain access to large labor markets, often to minimize costs by paying lower wages and providing less comfortable and less sage working environment.

HSBC is an organisation committed to Cooperate Social Responsibility and therefore aims to act ethically due its own internal culture. It is also regulated externally worldwide through an extensive array of regulatory authorities and legislation. The Bank recognizes that operating in so many parts of the world presents a range of social, ethical, and environmental challenges as well as business opportunities and competitive advantages.

Unethical behavior from global companies may involve such activities as tax heavens and transfer pricing practices to avoid paying tax, dumping products overseas that are considered illegal in more highly regulated countries and not carrying out business in a manner that will help preserve the environment for the future generation.

HSBC is a global company that aspires to act ethically and has be listed in the FTSE4Good index of socially responsible organizations. This index has been designed to measure the performance of companies that meet globally recognized corporate responsibility standards, and to facilitate investment in those companies.

In order to promote Corporate Social Responsibility, in a global environment, HSBC has certain internal standards that it aims to meet. These are set out in the Corporate Social Responsibility Report. It states that it will 'avoid certain types of business such as financing weapons manufacture and sales, dealing with countries subject to international sanctions and transaction that might be used to evade tax or to launder earning from crime.

## **7.1 Ethical Practices**

Ethical practices refer to 'doing the right thing' – Being in accordance with the accepted principles of right and wrong that govern the conduct of a business. This mean operating responsibly in the community it operates in, also to be aware of the consequences and impact of its actions.

### **7.1.1 Tax Havens**

Tax havens are countries which has a very low tax rate with the intention of attracting foreign corporate investment. When HSBC operate in tax heaven it is able to avoid paying taxes. In the short to medium term, it encourages foreign direct investment, however in the long term the economy will not be benefited, as the tax paid doesn't allowed the economy to improve its economic and social environment. As consequences, global business may not have an adequate workplace and educated workforce in the future. HSBC takes advantage of different tax system by establishing more firms in countries that have a lower company tax rate, in Hong Kong with only 17% company tax, there are 330 firms, where as Australia only have 12 firms due to the high company tax rate.

### **7.1.2 Transfer Pricing**

Transfer pricing is the pricing of goods and services particularly in regard to cross-border transaction, where goods may be sold to another division where taxes are lower and reduced the amount of tax the business have to pay.

### 7.1.3 Dumping illegal product

Dumping occurs when business sell goods or services at foreign country at particular low prices to gain more dominance over the market. Although there will be short term loss, global business can afford it, when it gains its dominant market share, it is able to manipulate the prices, as it is operating as a monopoly or oligopoly. Dumping is an unethical practice, as it damages a country economically and socially.

### 7.1.4 Ecological sustainability

Global businesses are attracted to developing nations as it is lack in environmental regulations. Many developing nations have accepted damage to their natural environments and increased pollution in order to attract foreign direct investment. However in recent year, many business have used 'environmentally friendly' as a marketing tool to attract customers.

HSBC have developed and maintain many strategies and program so it can act responsibly to the environment and ensure he action of todays doesn't affect the resources for the future. In 2009, HSBC opened two new buildings in Egypt and Canada that achieved the internationally recognised LEED sustainable building standard. The global software development facility in Canada, the primary site for all software development for HSBC, achieved the most prestigious platinum certification. Its design features include rainwater collection and water conservation systems to reduce water consumption by 72 per cent and cut electricity usage and costs by 45 per cent.

The sustainability credentials of existing buildings are also being reviewed: as part of HSBC's Global Environmental Efficiency Programme, the Bank has committed to assess its top 50 flagship buildings against sustainable building standards by 2011. This ensures that these properties are designed, constructed and operated in a manner that reduces their impact on the environment now and into the future.



LEED building in Egypt

HSBC's global headquarter building in London features 617 square meters of solar panels. At 213 meters (700 feet), the building is the highest corporate office PV installation in Europe. The panels are expected to generate 1,550,000 kilowatt hours of green electricity over the building's lease. Since 2004, HSBC has decreased its energy consumption at the headquarter office building by seven per cent, or 20% per full-time employee, a significant reduction for a corporate building of its size. HSBC expects to save a further 3% (1,750,000 kilowatt hours) of its total energy consumption in its global headquarter building over the next two years through energy efficient measures.



Solar panel headquarter building in London

In North America the 'PC power down' encourages employees to switch off their laptops while not in use, by replacing older personal computers with new, more efficient systems has resulted a 32 per cent increase in the energy efficiency of each machine. Upgrading the old screens with new, LCD models has increased energy efficiency even further.

HSBC has installed Night Watchman software from 1E on personal computers in North America as well as across Group which automatically shuts down a significant portion of the over 300,000 personal computers at HSBC in 2009, resulting in a saving of 7,267,865 kilowatt-hours of electricity and 3,125,182 kg's of carbon dioxide. As employees across Group in all regions shutting down their computers as they go home and our automated software that shuts down the computers if someone forgets. HSCB has saved the equivalent amount of energy to power the Empire State Building

## 8.0 Conclusions

Whilst the prospect of a global consumer market creates a world of opportunities for HSBC, international expansion also carries many risks. Like any other businesses growth, expansion will usually require additional investment funds, which if spent inappropriately, could result in businesses failure. International expansion also carries additional risks- excessive government regulations may restrict HSBC operations, or competitions from other businesses may be too intense. HSBC is influenced by a variety of factors in the international market, when being constantly aware of the financial, social, legal, and economic influences of the market. It is when HSBC constantly monitor and update its employees with changes in the influences, within the industry and its surrounding environment has contributed to the strong and sustainable success of HSBC.

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