Global Business Today

Third Canadian Edition

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DEDICATION

For June and Mike Hill, my parents.
—Charles Hill

To my mother and father, Dorothy and Russell McKaig.
—Thomas McKaig

ABOUT THE AUTHORS

Charles W. L. Hill is the Hughes M. Blake Professor of International Business at the School of Business, University of Washington. Professor Hill received his PhD in industrial organization economics in 1983 from the University of Manchester's Institute of Science and Technology (UMIST) in Great Britain. In addition to his position at the University of Washington, he has served on the faculties of UMIST, Texas A&M University, and Michigan State University.

Professor Hill has published more than 40 articles in peer-reviewed academic journals. He has also published five college textbooks, one on strategic management, one on principles of management, and the other three on international business (one of which you are now holding). He serves on the editorial boards of several academic journals and previously served as consulting editor at the *Academy of Management Review.*

Professor Hill teaches in the MBA and executive MBA programs at the University of Washington and has received awards for teaching excellence in both programs. He has also taught in several customized executive programs. He lives in Seattle with his wife, Lane, and children.

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Thomas McKaig provides advisory services in diverse industries, pinpointing and delivering strategic realignment solutions in areas of business development, operations and management reviews, international trade research, and training. He is Principal in Thomas McKaig International Inc. (TMI), an international development firm (www.tm-int.com).

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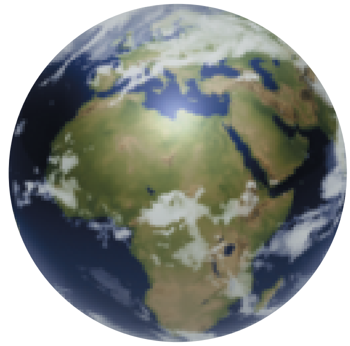

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THE *GLOBAL BUSINESS TODAY* APPROACH

Global Business Today is intended for the first international business course at either the undergraduate or the MBA level. Our goal with this third Canadian edition is to set new standards for international business textbooks. We have written a book that (1) integrates the Canadian perspective on international business and Canada's place within the international business environment, (2) is comprehensive and up-to-date, (3) goes beyond an uncritical presentation and shallow explanation of the body of knowledge, and (4) focuses on implications for business and makes important theories, issues, and practices accessible and interesting to Canadian students.

INTEGRATED COVERAGE OF THE CANADIAN PERSPECTIVE

Although this book is geared to the Canadian reader, this does not mean that all examples within are Canadian examples. The authors have written about those realities and examples that best portray chapter topical themes, as well as writing about what the market wants, based upon market research in the academic field. The textbook pays particular attention to small- and medium-sized enterprises and their push onto the international business scene.

COMPREHENSIVE AND UP-TO-DATE COVERAGE

To be comprehensive, an international business textbook must clearly communicate

- how and why the world's countries differ;
- why a comprehensive review of economics and politics of international trade and investment is necessary in understanding international trade;
- how the functions and form of the global monetary system are tied into global trade;
- how the strategies, objectives, and international structures of international business need to conform to certain guidelines set out by international organizations and other bodies; and
- the special roles of an international business's activities.

This book pays close attention to these issues. Ultimately, a successful business is an informed business. It is our intention to cover, in an in-depth manner, the linkages between success and knowledge on the global business stage. As time moves forward, an increasing number of students will become international managers, and this book will better equip them with knowledge about the strategies, operations, and functions of small and large businesses alike.

The theories behind international trade help students to grasp the scope and execution of international business. Many books convey an adequate task of communicating long-established theories (e.g., the theory of comparative advantage and Vernon's product life-cycle theory) but they ignore important newer works included in *Global Business Today,* such as

- the new trade theory and strategic trade policy;
- the work of Nobel prize-winning economist Amartya Sen on economic development;
- Samuel Huntington's influential thesis on the "clash of civilizations;"
- the new growth of economic development championed by Paul Romer and Gene Grossman;
- recent empirical work by Jeffrey Sachs and others on the relationship between international trade and economic growth;
- Michael Porter's theory of the competitive advantage of nations;

- Robert Reich's work on national competitive advantage;
- the work of Douglas North and others on national institutional structures and the protection of property rights;
- the market imperfections approach to foreign direct investment that has grown out of Ronald Coase and Oliver Williamson's work on transaction cost economics;
- Bartlett and Ghoshal's research on the transnational corporation;
- the writings of C.K. Prahalad and Gary Hamel on core competencies, global competition, and global strategic alliances, and
- Paul Samuelson's critique of free trade.

In addition to cutting-edge theory and the exponentially quickening pace of the international business environment, every effort has been made to ensure that this book is as current as possible when it goes to press. This Canadian edition contains current data from the World Trade Organization, the Organization for Economic Cooperation and Development (OECD), the United Nations Commission on Trade and Development (UNCTAD), Statistics Canada, and Export Development Canada, among others. This book provides readers with a fresh insight into factors influencing Canada and other countries in the world of international trade, Canadian businesses' forays into world markets, and reactions to ongoing economic structural readjustments in 2010 and beyond. Here are some examples:

- Chapter 2, "Country Differences in Political Economy," deals with critical forces affecting Canadian businesses working in the global arena.
- Chapter 5, "International Trade Theories," explains various international trade theories, while providing practical explanations of their applications within various international companies.
- Chapter 9, "The Foreign Exchange Market," provides insights into how Canadian corporations can receive payment in international transactions. Similarly, foreign exchange risks and various economic theories of exchange rate determination will prove helpful for those individuals and corporations contemplating doing business beyond Canada's borders.
- Leveraging core competencies and formulating global strategies through distributions channels and more are comprehensively covered in Chapter 11, "Global Strategy."
- Chapter 12, "Entering Foreign Markets," offers insight into reactions in other countries to privatization issues, as described in the Country Focus, "JCB in India."
- Chapter 15, "Global Manufacturing and Materials Management," neatly clarifies the details of global supply management through its opening case, "Managing Timberland's Global Supply Chain." Significant explanations are provided on strategy, manufacturing and logistics, the strategic roles of foreign factories, and make-or-buy decisions.
- Chapter 16, "Global Human Resource Management," underscores the benefits and disadvantages of Human Resource Management in terms of dealing with expatriate employees. International labour relations complicates the fabric of human resource departments for those companies with foreign operations.

BEYOND UNCRITICAL PRESENTATION AND SHALLOW EXPLANATION

Many issues in international business are complex and thus necessitate considerations of pros and cons. To demonstrate this concept to students, we have adopted a critical approach that presents the arguments for and against economic theories, government policies, business strategies, organizational structures, and so on.

Related to this, we have attempted to explain the complexities of the many theories and phenomena unique to international business so the student might fully comprehend the statements of a theory or the reasons a phenomenon is the way it is. These theories and phenomena typically are explained in more depth in *Global Business Today* than they are in competing textbooks.

FOCUS ON BUSINESS IMPLICATIONS AND ACCESSIBLE PRESENTATION

The third Canadian edition of *Global Business Today* offers many opportunities for students to engage with and apply the material to their lives and their future careers. The features listed below are explained in greater detail in the Learning Features section beginning on page xviii.

- Each chapter begins with an updated **Opening Case** and concludes with a new or updated **Closing Case** that illustrates the relevance of chapter material for the practice of international business. The opening case in Chapter 4, "Imagine No Metal," looks at mining and how "big business" in northern Ontario is also an important and growing sector worldwide. Chapter 12 opens with an updated case about General Electric and its joint ventures to gain entry into global markets. The new closing case in Chapter 11, "IKEA—The Global Retailer," looks at the flexibility needed by a successful, major corporation to adapt to change. The case accentuates the need for a global corporation to respect local preferences.

- Each chapter also contains at least one type of focus box. Updated **Management Focus** boxes, like the updated cases, illustrate the relevance of the chapter material for the practice of international business. Examples include: " Starbucks Wins Key Trademark Case in China" in Chapter 2, "Four Seasons Hotels and Resorts" in Chapter 7, "NAFTA—Friend or Foe of Canadian Business?" in Chapter 8, "Barrick Gold" in Chapter 9, and "The Tragedy of the Congo (Zaire)" in Chapter 10. **Country Focus** boxes provide background on the political, economic, social, or cultural aspects of countries grappling with an international business issue. For example, "50 Years of Corruption in Nigeria" in Chapter 2, "Foreign Direct Investment in China" in Chapter 7, "Trade Missions, A Vital Part of the Canadian Government's Global Business Strategy" in Chapter 11, and "Countries Want to Hold on to Their Jobs" in Chapter 16.
- **Another Perspective** sidebars help students to think critically about adjacent text material.
- Each chapter concludes with an **Implications for Business** section that explains the managerial implications of the chapter material. This feature helps business students to understand the linkage between practice and theory.
- **Sustainability in Practice Part-Ending Cases** help students to understand how businesses are engaging in the solutions to sustainable development challenges.
- **GlobalEdge™ Research Tasks** allow students to practise using real business data.
- **"Could You Do This?" Entrepreneurial Peer Profiles** featuring real students' experiences with starting their own global businesses are available at the text's Online Learning Centre Web site at www.mcgrawhill.ca/olc/hill.

THE STRUCTURE OF *GLOBAL BUSINESS TODAY,* THIRD CANADIAN EDITION

Global Business Today, third Canadian Edition, offers a tight, integrated flow of topics from chapter to chapter.

Part One: Globalization

Chapter 1 provides an overview of the key issues to be addressed and explains the plan of the book.

Part Two: Country Differences

Chapters 2, 3, and 4 focus on national differences in political economy and culture and the implications of these differences for ethical decision making. Most international business textbooks place this material later, but we believe it is vital to discuss national differences first. After all, many of the central issues in international trade and investment, the global monetary system, international business strategy and structure, and international business operations arise out of national differences in political economy and culture. To understand these issues, students must first appreciate the differences in countries and cultures.

Part Three: Cross-Border Trade and Investment

Chapters 5 through 8 investigate the political economy of international trade and investment, fostering understanding of the trade and investment environment in which international business occurs.

Part Four: Global Money System

Chapters 9 and 10 examine the global monetary system, while detailing the monetary framework in which international business transactions are carried out.

Part Five: Competing in a Global Marketplace

Chapters 11 through 16 move away from the macro environment of the international business realities into the workings of companies within this framework. How do companies adapt their strategies to compete beyond their own borders? How do production and logistics proceed on a global scale? These chapters explain how firms can perform their key functions—manufacturing, marketing, R&D, and human resource management—to compete and succeed in the international business environment.

WHAT'S NEW IN THE THIRD CANADIAN EDITION?

This third Canadian edition not only explains theoretical aspects of international trade but, more importantly, attempts to connect the practical applications involving international trade into a framework of helpful understanding for those exporters, both new and experienced, in this field.

CHAPTER-BY-CHAPTER CHANGES

Chapter 1: Globalization. All of the statistics have been updated to the most recent available at the time of this book going to production. Global Financial Services statistics updates show a significant spike in the amount of foreign exchange transactions since the data published in the first edition. This chapter includes various introductory concepts that will further substantiate the successes and challenges faced by Canadian companies when doing business abroad. A new Management Focus details the impact on businesses of the recent global economic meltdown. The emergence of global institutions is detailed. Also, the latest round of World Trade Organization talks (WTO) and revised WTO membership numbers of the troubled, yet growing membership of the WTO, are chronicled. Similarly, the innovative spirit of one of Canada's best known corporations shines through in a new closing case, "Tim Hortons: A Canadian Company Looking for New Markets,"as this "made-in-Canada" enterprise increases its forays into the American marketplace.

The outcries resonating from some high-profile pro-Canada crusaders, such as Maude Barlow, in the sensitive area of job losses in Canada due to outsourcing to companies in developing countries, such as India and Mexico, are detailed.

Chapter 2: Country Differences in Political Economy. The section on economic development includes a review of the work of Nobel prize-winning economist Amartya Sen. Sen has argued that development should be assessed less by material output measures such as GNP per capita and more by the capabilities and opportunities that people enjoy. The growing number of Internet users in Canada and around the world sheds an insight into the broader picture of how the Internet has changed the way people and enterprises communicate in Canada and beyond. The discussion of differences in legal systems provides insight into the linkage between corruption and negative economics within a country. Intellectual property is discussed in the framework of inroads being made into allowing the sale of cheaper generic versions of patented medicines—including a powerful new drug for AIDS, without permission from the patent owner. A new Management Focus, "Starbucks Wins Key Trademark Case in China" talks about the legalities in country differences and a new closing case, "Chavez's Venezuela" depicts a socialist system. "McDonald's around the World," details the corporation's ability to adapt internationally.

Chapter 3: The Cultural Environment. The Implications for Business section covers a broad cross-section of topics ranging from cross-cultural literacy, to culture and competitive advantage, to culture and business ethics. These themes pose problems for Canadians doing business abroad. In many cases, countries now have legal frameworks in place to regulate and interpret what constitutes proper ethics in doing business internationally. Bill S-21, passed into law in the late 1990s, lays out ethical business standards to be adhered to by Canadian business people when dealing abroad. The 2010 World Competitive Scoreboard shows Canada lagging in areas of competitiveness when compared to other countries. In areas of literacy, Canada, unlike many countries, earns strong grades, yet in terms of GDP per capita spending on education, Canada lags. Other areas of cultural differences are described within this chapter. Various religions and their significance within the world are discussed.

Chapter 4: Ethics in International Business. Canadian examples such as the Talisman company in Sudan, SARS in Toronto, Ivanhoe Mines in Myanmar, and the Conrad Black trial, all with a global focus, are updated.

Chapter 5: International Trade Theories. Over the past few years, numerous empirical studies have been published that look at the relationship between a country's "openness" to international trade and its economic growth. This work is discussed in this chapter. The work gives empirical support to the theory of comparative advantage and a strong example of trade disputes is showcased through a new case on "Pizza Wars" between the United States and Canada.

Chapter 6: The Political Economy of International Trade. The contentious bilateral trade issues that have periodically soured Canadian trade relations with the United States over the past couple of decades are dealt with in the context of the World Trade Organization and the North American Free Trade Agreement. In particular, the unresolved softwood lumber dispute is previewed in this chapter, further discussion of which takes place in Chapter 14. In Chapter 14 we present a Canadian success story, "Clearwater Seafoods." We explore this corporation's competitive advantage and relate it to China's overall status as one of the world's low-cost seafood producers.

Chapter 7: Foreign Direct Investment. Both up-to-date international foreign direct investment (FDI) Flows and FDI figures show the importance of FDI, in its different forms, including mergers and acquisitions, in the economies of Canada and other countries. In spite of Canada's growing presence on the world economic stage, it can still only boast two transational corporations that manage to slip into the world's top 100 non-financial TNCs, ranked by foreign assets.

Chapter 8: Regional Economic Integration. On January 1, 2007, two new member states joined the European Union, bringing its current membership to 27. This chapter covers the post-World War II levels of economic integration within Europe, leading to the European Union and its monetary union, while covering lesser initiatives, including the Free Trade Agreement, now NAFTA, which includes Mexico, Canada, and the United States. Other efforts of regional economic integration are also discussed and these include customs unions in South America such as MERCOSUR and the Andean Pact countries (now the Community of Andean Nations) , along with similar dynamic pro-business undertakings in Asia (Association of Southeast Asian Nations—ASEAN and the Asia Pacific Economic Cooperation—APEC) and Africa.

Chapter 9: The Foreign Exchange Market. The Canadian dollar's recent rise against the U.S. dollar and other currencies is significant for Canadian importers and exporters. Also, economic theories of exchange rate determination are explained that are all vital to business people conducting business abroad. A new Closing Case on "The Ultimate Source of Wealth" depicts the importance of gold as an investment.

Chapter 10: The Global Monetary System. One of the more interesting phases of the development and growth of the Canadian economy came during the period of time in which Canada was under the gold standard from 1854–1914 and 1914–1926. Internationally, many policies and institutions have influenced and shaped the value of currencies. The ever-increasing U.S. trade deficit and the fall of the U.S. dollar have wreaked havoc on the international monetary system. Similarly, after reaching record-breaking prices, gold and oil prices have remained elevated through 2011, and their effect on the global monetary system remains noteworthy.

Chapter 11: Global Strategy. Multinational corporations have long recognized the importance of leveraging skills, strategic alliances, and competencies in their foreign locations for improved business practices at home and abroad. How Canadian companies apply their know-how in foreign situations is discussed in several sections within this chapter, including how the Canadian Managers Abroad component of the former "Team Canada" has been reincarnated. The expanding presence of IKEA stores, numbering 230 worldwide, with more openings planned for China, depicts the growth of an increasingly popular home furnishings brand.

Chapter 12: Entering Foreign Markets. The ways through which companies enter foreign markets is covered through a look at the pros and cons of greenfield investments and other forms of alternative strategies for entering foreign markets. The Management Focus highlights the Jollibee Foods Corporation from the Philippines and its ambitious expansion to the U.S.

Chapter 13: Exporting, Importing, and Countertrade. The discussion on export assistance to Canadian companies provides a detailed look at the institutional means and mechanisms through which many Canadian companies engage in export, for example, Export Development Canada and the Canadian Commercial Corporation. The Another Perspective box shows how innovative Board of Trade offices, such as the one featured (Brampton Board of Trade), partner with the private sector to enhance business opportunities for companies.

Chapter 14: Global Marketing and R&D. Global marketing and R&D are what makes or breaks a company. The Management Focus "Jean Coutu Group—Marketing to the North American Consumer," depicts one successful Canadian company's evolving foray into markets beyond our borders. Distribution and communication strategies are also discussed within this chapter. American-Canadian softwood lumber irritants are further explained in the context of NAFTA and WTO rulings on this evolving and contentious issue.

Chapter 15: Global Production, Outsourcing, and Logistics. Web-based IT systems now play a vital role in materials management around the world. Global tracking systems enable goods to be located within a 45-metre (50-yard) radius as they travel to their destination. Cashier entries in local supermarkets are tied into inventory data that signals when certain goods should be replenished by the manufacturer. An innovative look into global manufacturing and materials management can be seen in the updated Management Focus on "Having Fun Making Money."

Chapter 16: Global Human Resource Management. Employment legislation can have both positive and negative impacts for foreign businesses operating abroad and companies must be aware of rules and guidelines so they can act accordingly. A new Another Perspective box about expatriate employees was added based on an interview with the Consul General of Uruguay in Toronto. The prickly issue of countries wanting to keep jobs at home is detailed in a Country Focus. This chapter also discusses the complete range of factors affecting human resource management in other countries.

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Instructor's Manual The Instructor's Manual contains lecture notes and teaching suggestions for each chapter, and is written by the text author, Thomas McKaig, to ensure accurate and current material, relevant to text content.

Test Bank in Rich Text Format The test bank contains approximately 100 questions per chapter and is written by the text author, Thomas McKaig, to ensure tight alignment to text content.

Computerized Test Bank. This flexible and easy-to-use electronic testing program allows instructors to create tests from book-specific items. It accommodates a wide range of question types and instructors may add their own questions. Multiple versions of the test can be created and printed.

Microsoft® PowerPoint® Slides These presentations offer approximately 15 to 20 slides per chapter and were created by Tim Richardson, Seneca College of Applied Arts and Technology/University of Toronto.

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Numerous people deserve recognition for their assistance in preparing this book.

First and foremost, I would like to thank my parents, Dorothy and Russell McKaig, for always being my greatest supporters. My father did not live to see this third edition of the book, but was an enthusiastic supporter of my efforts with all previous editions. Many thanks also to my sister, Janet McKaig, and brother, Woody McKaig, for their support and advice.

I couldn't have been more fortunate to have my Research Directors, Susanna Boehm and Jim Helik. They were able to handle my endless requests for massive amounts of research information, and synthesize it to meet my demanding time lines. They exceeded my expectations in the quality of their input. They knew *exactly* what I wanted and made this massive mission of creating a Canadian-focused textbook on global business a "Mission Possible." Their dedication, can-do attitude, patience, intelligence, and sense of humour is humbling to me and I can only say that I have found the best researchers possible.

A textbook on global business needs a global team, and I was fortunate that my colleagues here in Canada, as well as in Uruguay, Panama, and elsewhere were so generous with their time and knowledge. I would like to offer a special thanks to Nick Barisheff, (Chief Executive Officer), Paul de Sousa, VP Business Development BMG Bullion Funds, Marc Farmer, VP Business Development BMG BullionBars, for their unique global vision and understanding on doing business internationally and on the value of gold, silver, and platinum bullion. The privilege of working internationally with Nick, Paul, and Marc, as well as with the entire BMG team, is indeed an honour. I would like to offer a sincere thanks to Geoff Kelly; Michael, Monique, and Maddisyn Wegner; Aqeel Mohammad; Sallie L. Storey; and Jaime Rozinsky for their kind assistance through the years. I would like to specially thank Fernando Lopez-Fabregat, Consul General of Uruguay in Toronto, for providing insights on international business. Also, thanks to Mr. Bosco Vallarino Jr., Consul General of Panama in Toronto, for his kind assistance and insights pertaining to Panama.

I would like to thank Charles W. L. Hill, for creating an excellent textbook and strong base from which this Canadian edition was made possible. Trevor Buss similarly epitomizes the spirit of entrepreneurship. His business travels to China formed the basis for his insightful article "Doing Business in China" in the Management Focus box in Chapter 3. As well, I would like to thank Dr. George Bragues, Program Head, Business and Assistant Vice Provost, University of Guelph-Humber, for his continued support and assistance. I would like to thank the Department of Marketing and Consumer Studies of the University of Guelph for its support throughout the years. I also wish to thank Alexander Fry, Partner, KPMG Montevideo, and Rodrigo F. Ribeiro, CFA, Partner, Advisory Services KPMG, Montevideo, Uruguay, for the time spent interviewing them for confirmation of certain economic data. I would also like to thank Charles Janthur for his international business support.

Market feedback indicated that more expansive coverage of the important role that ethics plays in the international business arena was necessary. We called upon Tim Richardson, who teaches at Seneca College of Applied Arts and Technology and the University of Toronto, Department of Management, www.witiger.com. Tim enthusiastically and ably responded to this request, providing Chapter 4, "Ethics in International Business," rich in Canadian content and current research. We thank him for his invaluable and ongoing contribution to this text.

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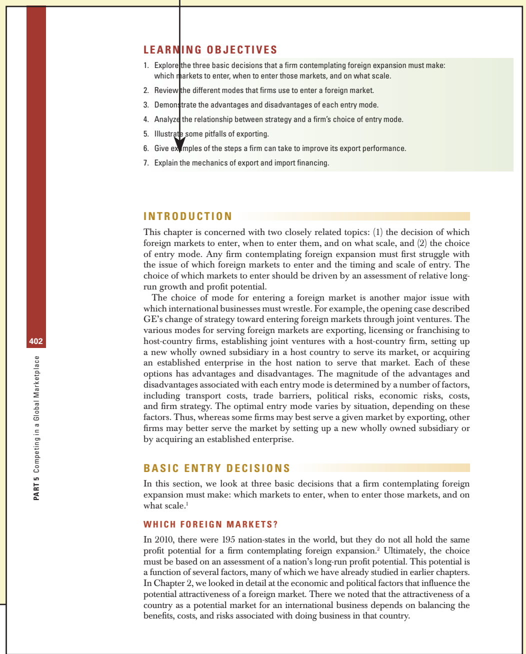
Thomas McKaig

LEARNING FEATURES

Global Business Today, Third Canadian Edition, has a rich selection of learning features that highlight companies' ups and downs in the international business arena, stimulate learning and understanding, and challenge students to respond.

Learning Objectives

Learning Objectives tell students what they will know after completing the chapter.



LEARNING OBJECTIVES

1. Explore the three basic decisions that a firm contemplating foreign expansion must make: which markets to enter, when to enter those markets, and on what scale.
2. Review the different modes that firms use to enter a foreign market.
3. Demonstrate the advantages and disadvantages of each entry mode.
4. Analyze the relationship between strategy and a firm's choice of entry mode.
5. Illustrate some pitfalls of exporting.
6. Give examples of the steps a firm can take to improve its export performance.
7. Explain the mechanics of export and import financing.

INTRODUCTION

This chapter is concerned with two closely related topics: (1) the decision of which foreign markets to enter, when to enter them, and on what scale, and (2) the choice of entry mode. Any firm contemplating foreign expansion must first struggle with the issue of which foreign markets to enter and the timing and scale of entry. The choice of which markets to enter should be driven by an assessment of relative long-run growth and profit potential.

The choice of mode for entering a foreign market is another major issue with which international businesses must wrestle. For example, the opening case described GE's change of strategy toward entering foreign markets through joint ventures. The various modes for serving foreign markets are exporting, licensing or franchising to host-country firms, establishing joint ventures with a host-country firm, setting up a new wholly owned subsidiary in a host country to serve its market, or acquiring an established enterprise in the host nation to serve that market. Each of these options has advantages and disadvantages. The magnitude of the advantages and disadvantages associated with each entry mode is determined by a number of factors, including transport costs, trade barriers, political risks, economic risks, costs, and firm strategy. The optimal entry mode varies by situation, depending on these factors. Thus, whereas some firms may best serve a given market by exporting, other firms may better serve the market by setting up a new wholly owned subsidiary or by acquiring an established enterprise.

BASIC ENTRY DECISIONS

In this section, we look at three basic decisions that a firm contemplating foreign expansion must make: which markets to enter, when to enter those markets, and on what scale.[1]

WHICH FOREIGN MARKETS?

In 2010, there were 195 nation-states in the world, but they do not all hold the same profit potential for a firm contemplating foreign expansion.[2] Ultimately, the choice must be based on an assessment of a nation's long-run profit potential. This potential is a function of several factors, many of which we have already studied in earlier chapters. In Chapter 2, we looked in detail at the economic and political factors that influence the potential attractiveness of a foreign market. There we noted that the attractiveness of a country as a potential market for an international business depends on balancing the benefits, costs, and risks associated with doing business in that country.

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PART 5 Competing in a Global Marketplace

Opening Case

Each chapter begins with an engaging opening case that sets the stage for the chapter. These brief case studies introduce students to critical issues and often challenge their preconceptions. For actual countries/organizations providing rich, introductory examples, look to each chapter's opening case.

3

PART THREE

CROSS-BORDER TRADE AND INVESTMENT

CHAPTER 5

International Trade Theories

The Ecuadorean Rose Industry

OPENING CASE

IT IS 6:20 A.M. FEBRUARY 7 IN THE ECUADOREAN TOWN OF CAYAMBE, and Maria Pacheco has just been dropped off for work by the company bus. She pulls on thick rubber gloves, wraps an apron over her white, traditional embroidered dress, and grabs her clippers, ready for another long day. Any other time of year, Maria would work until 2 P.M., but it's a week before Valentine's Day, and Maria along with her 84 co-workers at the farm are likely to be busy until 5 P.M. By then, Maria will have cut more than 1000 rose stems.

A few days later, after they have been refrigerated and shipped via aircraft, the roses Maria cut will be selling for premium prices in stores from New York to London. Ecuadorean roses are quickly becoming the Rolls-Royce of roses. They have huge heads and unusually vibrant colours, including 10 different reds, from bleeding heart crimson to a rosy lover's blush.

Most of Ecuador's 460 or so rose farms are located in the Cayambe and Cotopaxi regions, 10 000 feet up in the Andes about an hour's drive from the capital, Quito. The rose bushes are planted in huge flat fields at the foot of snowcapped volcanoes that rise to more than 20 000 feet. The bushes are protected by 20-foot-high canopies of plastic sheeting. The combination of intense sunlight, fertile volcanic soil, an equatorial location, and high altitude makes for ideal growing conditions, allowing roses to flower almost year-round. Ecuador apparently has a comparative advantage in the production of roses.

Ecuador's rose industry started some 20 years ago and has been expanding rapidly since. Ecuador is now the world's fourth largest producer of roses. Roses are the nation's fifth largest export, with customers all over the world. Rose farms generate $240 million in sales and support tens of thousands of jobs. In Cayambe, the population has increased in 10 years from 10 000 to 70 000, primarily as a result of the rose industry. The revenues and taxes from rose growers have helped to pave roads, build schools, and construct sophisticated irrigation systems.

Maria works Monday to Saturday, and earns $210 a month ($US), which she says is an average wage in Ecuador and substantially above the country's $120 a month minimum wage. The farm also provides her with health care and a pension. By employing women such as Maria, the industry has fostered a social revolution in which mothers and wives have more control over their family's spending, especially on schooling for their children.

For all of the benefits that roses have bought to Ecuador, where the gross national income per capita is only $1080 a year, the industry has come under fire from environmentalists. Large growers have been accused of misusing a toxic mixture of pesticides, fungicides, and fumigants to grow and export unblemished pest-free flowers. Reports claim that workers often fumigate roses in street clothes without protective equipment. Some doctors and scientists say that many of the industry's 50 000 employees have serious health problems as a result of exposure to toxic chemicals. A study by the International Labour Organization reported that women in the industry had more miscarriages than average and that some 60 percent of all workers suffered from headaches, nausea, blurred vision, and fatigue. Still, the critics acknowledge that their studies have been hindered by a lack of access to the farms, and they do not know what the true situation is. The International Labour Organization has also said that some rose growers in Ecuador use child labour, a claim that has been strenuously rejected by both the growers and Ecuadorean government agencies.

In Europe, consumer groups have urged the European Union to press for improved environmental safeguards. In response, some Ecuadorean growers have joined a voluntary program aimed at helping customers identify responsible growers. The certification signifies that the grower has distributed protective gear, trained workers in using chemicals, and hired doctors to visit workers at least weekly. Other environmental groups have pushed for stronger sanctions, including trade

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Another Perspective

With multiple examples per chapter, Another Perspective boxes provide students with an alternate way of thinking about important global issues presented in the text. These not only hone students' critical thinking skills but also give a deeper understanding of chapter topics.

ANOTHER PERSPECTIVE

Technology and knowledge transfer: a benefit and a danger

A joint venture is like a party where everyone brings something and takes something. In a joint venture located in a developing country, the company with the business brings knowledge about the business and its processes, while often the local partner brings knowledge about the market and long-standing relationships, along with personnel. In its early preparation for entry into South Korea, KFC (then known as Kentucky Fried Chicken) selected a joint-venture partner, began training the partner, and began to bring in its systems and layout, including the pressure-cooked process, special equipment, and the 11 herbs and spices, to share with its new Korean partner. Imagine the Americans' surprise when they found hundreds of Kentucky Fried Chicken stores already up and running in and around Seoul. They were tiny mom-and-pop shops, a result of a family's U.S. vacation, and although they didn't prepare chicken the same way or offer the same product line, they did confuse the public about the KFC concept for a while. Even today, you can find little Kentucky Fried Chicken stalls in the middle of Seoul.

Country Focus

Country Focus boxes provide real-world examples of how different countries grapple with political, economic, social, or cultural issues.

COUNTRY FOCUS

ENHANCING FINANCING POSSIBILITIES—THE BUSINESS DEVELOPMENT BANK OF CANADA

Businesses and governments working together is not a new idea. For example, the Business Development Bank of Canada (BDC), formed on July 13, 1995, under the Business Development Bank of Canada Act, has a broadened and dynamic public interest mandate, particularly focusing on Canadian exporting businesses in the technology sector. It does provide assistance to non-export ventures, but increasingly small businesses are using its services for export-specific purposes.

The BDC took root during the end of the World War II era when, in September 1944, the Canadian Parliament proclaimed the Industrial Development Bank of Canada (IDB), which was at that time an arm of the Bank of Canada. Its primary purpose was to assist manufacturing-based companies. Over the next few years, the IDB Act was amended several times, expanding its ability to grant loans to many companies across a variety of industry sectors. By 1964, the bank had 22 cross-Canada branches.

The basic premise of the BDC's original set up in 1944 was to focus on providing financial loans to companies. During the 1970s, it began to acknowledge that companies needed more than money. It added to its roster of services to Canadian business areas such as counselling, training, and planning for small business owners. Another innovative concept to be injected into the IDB in the 1970s turned it into a sort of one-stop shop for small businesses in need of financing, export advice, and business planning counsel. It then evolved into a separate Crown corporation and the Federal Business Development Bank took over from the IDB in October 1975. The bank then decentralized and opened up more branches across Canada.

In April 2002, the BDC's mandate was renewed for a period of ten years and the partnership between Canadian small businesses and the BDC continues. Doing business abroad is difficult enough and most Canadian small businesses need all the help they can get. By 2008, the BDC boasted 93 branches across Canada and in 2008, ranked 15th of the 100 best employers in Canada. Companies with a loan with BDC can access an online Web site, BDC Connex, a virtual branch for Canadians, further expanding the BDC's presence.

Its activities are similar to those of a regular chartered bank, such as the CIBC or the Royal Bank of Canada. The BDC's key activities involve granting flexible business loans with floating and fixed interest rates for up to 20 years. It also has a micro-business program. This arm of the bank assists small business owners with mentoring and continued management support for as long as two years after the initial signed agreement between the small business owner and the BDC. It can provide term financing of up to $25 000 to new businesses and up to $50 000 to existing companies with solid and realistic plans. There are several other types of services that enable eligible Canadian businesses to extend their business beyond Canada's borders. A Productivity Plus Loan assists well-established manufacturing companies to acquire various types of up-to-date equipment in the range of $100 000 to $5 million. In addition to this, the BDC might offer an extra 25 percent financing for installation, assembly, and personnel training.

Innovation Loans, geared primarily towards helping entrepreneurs grow their businesses, assist with the organizational logistics and implementation of innovation strategies, frequently in training for R&D, and International Organization for Standardization (ISO) standards training. Entrepreneurs can top up an Innovation loan for up to $100 000 with a Working Capital for Exporters loan for amounts up to $250 000.

BDC also provides Venture Capital loans in amounts ranging from $500 000 to $5 000 000 irrespective of the company life cycle. The BDC Tourism Investment Fund has funds available to those entrepreneurs with good track records and future prospects in amounts ranging from $250 000 to $10 000 000 as well as Growth Capital for Aboriginal Business for loans ranging between $25 000 and $100 000, also with flexible repayment turns. For costs relating to Web solutions, companies could be eligible to receive financing from $25 000 to $50 000 to meet the various costs related to the implementation of a Web solution.

Sources: BDC at http://www.bdc.ca/EN/about/overview/history/Pages/default.aspx and http://www.bdc.ca/EN/about/overview/Pages/overview1.aspx; Canada Business at http://www.canadabusiness.ca/eng/.

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Management Focus

Management Focus boxes illustrate the relevance of chapter concepts for the practice of international business.

MANAGEMENT FOCUS

THE "REEL" THREAT TO THE CANADIAN FILM INDUSTRY

As avid moviegoers, many Canadians might not realize the magnitude of the film business, both foreign and domestic, operating within Canada. Movie trailers and film lights are a common sight in Canada's major cities to small towns. Many major American television series and movies, such as *Haven* and *The Twilight Saga* have been filmed in Canada. However, this industry has been put at risk with the recent rise of the Canadian dollar, which makes filming in Canada, compared to the United States, far less attractive than it has been.

In 2008 and 2009 the Canadian film industry decreased by 4.3 percent for a total volume of $5 billion in total volume of production. The arts and entertainment industry makes up 1.07 percent of GDP, employing over 776 000 Canadians. Nearly one quarter of all Hollywood films are now shot in Canada, with many Canadians showing front stage in this lucrative industry—James Cameron, Ivan Reitman, and Norman Jewison, with the latter having founded the Canadian Film Centre. Canadians also make movies outside the Hollywood system including such renowned directors as Rock Demers, Deepa Mehta, David Cronenberg, Denys Arcand, and Atom Egoyan.

Provincial and federal film tax credits do their share of the work in keeping the business of filming in Canada. Over the years, governments in Canada have come to power on pledges to protect and to bolster the Canadian film and cultural industries. In the early 1990s, the Liberal's now famous "Liberal Handbook," and their accompanying pledge to strengthen and protect the Canadian cultural industries against incursions by the American cultural juggernaut—claimed by some to be all talk and no action—were well-known trademarks of Liberal party cultural heritage policy. Sheila Copps, the former Minister of Canadian Heritage, became associated with shining the beacon on Canadian culture, even if some pro-Canada culture interests, such as the CBC, seemed to weaken during her time in power.

The Canadian government's "intervention" or intention to intervene in the business of Canadian culture has met with culture shock in American media circles, where culture is not viewed as a national heritage, but as a profit-making industry. Labour unrest in the Hollywood film industry has frequently been a by-product of the actors union, up in arms about lost jobs to cheaper and perhaps, friendlier climes, particularly in the Great White North. Ed Asner, as head of the Screen Actors Guild and union activist, has spoken out over the decades about the outflow of Hollywood movie productions to Canada.

One who joined this chorus was Arnold Schwarzenegger, then-Governor of California, who threatened the Hollywood movie industry with punitive measures for those companies filming in Canada and elsewhere. It is clear that government intervention or lack thereof can play a determining role in the future of this lucrative Canadian industry. To those American studios filming in Canada, there are many attractive features built into the equation. However, one of the major factors is the currency question. The Canadian dollar has been rising relative to the U.S. dollar for many years now, and became on par in December 2010. This movement has gradually made filming in Canada far more expensive than it used to be. Canadian concerns about a higher dollar intermittently send shivers through the Canadian film industry as the thoughts of losing productions due to a more expensive Canadian dollar subconsciously resonate.

The fact that the Canadian film industry and the government have been able to make huge gains in spite of the American cultural giants over the past century lends a degree of expectation about the continuation of highly successful Canadian cultural industries. However, no industry is immune to competitive threats. A continued strong Canadian dollar and a weak U.S. dollar may be enough to reverse the trend of the past several decades.

Sources: Statistics Canada, "Gross domestic product at basic prices, by industry," http://www40.statcan.gc.ca/l01/cst01/econ41-eng.htm; Statistics Canada, "Distribution of employed people, by industry, by province," http://www40.statcan.gc.ca/l01/cst01/labor21a-eng.htm; L. McNulty, "Canada's film industry is A-list celebrity hot," July 9, 2010, http://mediacentre.canada.travel/content/travel_story_ideas/film_in_canada_2010; Canadian Media Production Association, "Statistical Indicators of Film and Television Production in Canada," http://www.cftpa.ca/newsroom/fact_sheet/, accessed December 12, 2010.

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RESEARCH TASK | globaledge.msu.edu

Use the globalEDGE™ site to complete the following exercises:

1. The Internet is rich with resources that provide guidance for companies that wish to expand their markets through exporting. GlobalEDGE provides links to these "tutorial" Web sites. Identify five of these sources and provide a description of the services available for new exporters through each of these sources.
2. Utilize the globalEDGE™ Glossary of International Business Terms to identify the definitions of the following exporting terms: air waybill, certificate of inspection, certificate of product origin, wharfage charge, and export broker.

Visit the *Global Business Today* Online Learning Centre at **www.mcgrawhill.ca/olc/hill** to access quizzes, interactive exercises, a Business Around the World interactive map, and other learning and study tools related to this chapter.

GlobalEDGE/CIBER™ Research Task

Using the text and the GlobalEDGE™ Web site, http://globaledge.msu.edu, students solve realistic international business problems related to each chapter. These exercises expose students to the types of tools and data sources international managers use to make informed business decisions.

Critical Thinking and Discussion Questions

These questions are suited for in-class discussion or personal reflection.

CRITICAL THINKING AND DISCUSSION QUESTIONS

1. The interest rate on one-year Canadian government securities is 6 percent and expected inflation rate for the coming year is 2 percent. The U.S. one-year government security instrument interest rate is 4 percent with expected inflation for this coming year of 1 percent. The exchange rate for the US$/Cdn$ as of mid-June 2008 is US$1 = Cdn$1.02296 (US$100 = Cdn$102.27). What is the spot exchange rate a year from now? What is the forward exchange rate a year from now? Explain the logic of your answers.
2. Two countries, Canada and the United States, produce just one good: beef. Suppose the price of beef in the United States is $3 per kilogram and in Canada it is $4 per kilogram.
   a. According to the PPP theory, what should the spot exchange rate be?
   b. Suppose the price of beef is expected to rise to $3.50 per kilogram in the United States and to $4.75 per kilogram in Canada. What should the one-year forward US$/Cdn$ exchange rate be?
   c. Given your answers to parts *a* and *b*, if the current interest rate in the United States is 10 percent, what would you expect the current interest rate to be in Canada?

may still be preferable to enter via a greenfield venture. Things such as skills and organizational culture, which are based on significant knowledge that is difficult to articulate and codify, are much easier to embed in a new venture than they are in an acquired entity, where the firm may have to overcome the established routines and culture of the acquired firm. Thus, as our earlier examples suggest, firms such as McDonald's and McCain prefer to enter foreign markets by establishing greenfield ventures.

IMPLICATIONS FOR BUSINESS

Several means of entering foreign markets have been detailed in this chapter. For example, in some instances if a Canadian firm were considering overseas expansion, and depending on how aggressively it wanted the business, a host country could stipulate that the Canadian firm relinquish majority ownership in favour of host country majority ownership (equity joint venture). Socialist countries or developing nations have been known to require this type of market entry strategy to ensure that they derive benefit from foreign corporations. In other words, more profits can be retained within the host country's borders. Table 12.2, although representative of common problems and potential solutions to market entry modes in any and all countries, refers to China in this instance.

Certain businesses have found that equity joint ventures can be helpful in enhancing business goals after entering China, while others find that export and contractual joint ventures are more flexible. Export and contractual joint ventures can be useful to those companies with "made in Canada" technology, products, or manufacturing processes. Export and contractual joint ventures allow for low risk, minimal upfront cash outlay from the exporter, and a quick exit from the local market should business or political conditions change.

AREAS OF MAIN CONCERN	EVALUATION	HOW DID THE COMPANY DEAL WITH IT?
Culture difference	Large but manageable	Companies had executives who were extremely fond of the Chinese culture. Hire local Chinese to bridge the gap.
Foreign exchange	Extremely important	Help the Chinese apply for Export Development Corporation funding.
Quality of local employees	Very important	High-quality local employees are available. Higher pay to attract quality people.
Training needs for the Chinese	Extremely important	Written into the employment contract for the Chinese employees to get training in Canada. Very good motivational tool.
High cost of doing business in China	The cost is reasonable	Hiring as many local Chinese as possible to lower the cost.
Expatriates	Not critical	None of the operations required full-time expatriate to be stationed in China. Each company had an individual who spent about six months out of a year in China.
Finding connections to help navigate the system	Very important	Connections and local employees help to do it.

TABLE 12.2
Common Problems and Solutions Regardless of Entry Mode
Source: Department of Foreign Affairs and International Trade Canada, 2004. Reproduced with the permission of Her Majesty the Queen in Right of Canada, represented by the Minister of Public Works and Government Services Canada, 2005.

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CHAPTER 12 Entering Foreign Markets

Implications for Business

At the end of every chapter, this section spotlights the managerial implications of the chapter material.

Key Terms and Summary

These resources help students review key concepts.

KEY TERMS

caste system, p. 98
class consciousness, p. 100
class system, p. 99
Confucian dynamism, p. 115
ethical systems, p. 100
ethnocentric behaviour, p. 118
folkways, p. 92
group, p. 95
individualism versus collectivism, p. 113
karoshi, p. 98
long-term vs. short-term orientation, p. 114
masculinity versus femininity, p. 113
mores, p. 93
norms, p. 92
power distance, p. 113
religion, p. 100
social mobility, p. 98
social strata, p. 98
society, p. 92
uncertainty avoidance, p. 113
values, p. 92

CLOSING CASE

LAKSHMI MITTAL AND THE GROWTH OF MITTAL STEEL

In 2007 ArcelorMittal was created in a controversial merger between Mittal Steel and Arcelor. The merger was the brainchild of Mittal CEO Lakshmi Mittal and his son, Aditya. Under Lakshmi's leadership, the family-owned Mittal Steel had grown from obscure origins in India to become the largest steel company in the world. The story dates to the early 1970s. At that time, the company was facing limited growth opportunities in India. Regulations constrained expansion opportunities, and Mittal competed with both a state-owned rival, SAIL, and a private national champion, Tata Steel. So Lakshmi's father financed the start-up of a steelmaking plant in Indonesia in 1975.

To reduce costs in his Indonesian plant, Mittal did not smelt iron ore, but instead purchased direct reduced iron pellets. The supplier was a struggling state-owned steel firm in Trinidad. Impressed by Mittal's success in Indonesia, the Trinidadians asked him to turn their firm around under a contract. Mittal set up another company to run the Trinidad plant. In 1989, after a successful turnaround, Mittal purchased the Trinidadian plant.

Now the company that had been born in India had two major foreign operations, but it was just the beginning. The global steel industry had been in a slump for 25 years due to excess capacity and slow demand growth as substitute materials replaced steel in a number of applications, but Mittal saw opportunity in purchasing the assets of distressed companies on the cheap. He believed that the global steel industry was about to turn a corner, driven in large part not only by sustained economic growth in developed nations, but also by growing demand in newly industrializing nations including China and his own native India. He saw all sorts of opportunities for buying poorly run companies as they came up for sale, injecting them with capital, improving their efficiency by getting them to adopt modern production technology, and taking advantage of the coming boom in steel demand. He also saw the opportunity to use the purchasing power of a global steel company to drive down the price it would have to pay for raw-material inputs.

In 1992 Mittal made his next move, buying Sibalsa of Mexico, a state-owned steel company that was being privatized. This was followed in 1994 by the purchase of the fourth largest Canadian steelmaker from the government of Quebec. Then in 1995 Mittal Steel purchased a midsized German steelmaker and Kazakhstan's largest steelmaker, which was at the time in something of a shambles as the country transitioned from a socialist system to a more market-based economy. By this time, Mittal was hungry for more international growth, but his company was capital-constrained. So he decided to take it public, but not in his native India or Indonesia, where the liquidity of the capital markets was limited. Instead, in 1997 he moved the company's headquarters to Rotterdam, and then offered stock in Mittal Steel for sale to the public through both the Amsterdam and New York stock exchanges, raising $776 million in the process.

With capital from the initial public offering (IPO), Mittal purchased two more German steelmakers in 1997. This was followed in 1998 by the acquisition of Inland Steel Company, a U.S. steelmaker. Over the next few years, more acquisitions followed in France, Algeria, and Poland among other nations. In 2005, Mittal Steel purchased International Steel, a company formed from the integration of troubled U.S. steelmakers that had been in bankruptcy. By this time Mittal's prediction had come true; global demand for steel was booming again for the first time in a generation, driven in large part by demand in China, and steel prices were hitting record highs. Mittal Steel was now the world's largest steelmaker. This set the scene for Mittal Steel's $32 billion hostile acquisition of Arcelor, a European firm formed from the merger of steelmakers from Luxembourg, France, and Spain. The acquisition was bitterly contested, with the management of Arcelor and many European politicians opposing the acquisition of a European company by an Indian enterprise (although Mittal Steel was legally a Dutch company). Arcelor's shareholders, however, saw value in the deal and ultimately approved it in late 2006. Today it is the world's largest steel company, and ranks 99th on the 2010 *Fortune Global 500* list. (ArcelorMittal Mines Canada, formed in 2008, is one of Canada's leading suppliers of iron ore to steel markets around the world.)

Sources: "Mittalic Magic," *The Economist,* February 16, 2008, p. 80; K. Gopalan, "Steel Czar," *Business Today,* January 13, 2008, pp. 102–06; S. Daneskhu, "FDI into Richest Country's Set to Rise 20% This Year," *Financial Times,* June 22, 2007, p. 7; and historical information archived at ArcelorMittal Web site, www.arcelormittal.com/, accessed March 17, 2008.

CASE DISCUSSION QUESTIONS

1. ArcelorMittal has grown in the past by making multiple foreign direct investments. Are there other ways for the company to grow in the future?
2. Can a company ever become too big to be effective? Could this happen to ArcelorMittal?
3. Hamilton, Ontario, had been home to Dofasco Steel since 1912. In 2006, Dofasco was bought by Arcelor. Does the foreign ownership of such a major industry make a difference to Hamilton, or to Canada?

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Closing Case

The closing case wraps up the material in the chapter by relating the experience of a company to the practice of international business.

Sustainability in Practice

Located at the end of each part, these vignettes illustrate how businesses are engaging in the solutions to sustainable development challenges.

SUSTAINABILITY IN PRACTICE

INTERFACE: AN ENVIRONMENTALLY SUSTAINABLE COMMITMENT TO BUSINESS AND MATERIAL MANAGEMENT

The following case study describes a company's efforts to be both profitable and environmentally sustainable.

Interface, Inc. is the world's largest manufacturer of carpet tiles and upholstery fabrics for commercial interiors. But Interface's core vision is not about carpet or fabrics per se; it is about becoming a leading example of a sustainable and restorative enterprise by 2020, measured across five dimensions: people, place (the planet), product, process, and profits. That is a substantial challenge for a company that in 2000 had 27 factories, sales offices in 110 countries, annual sales of $1.3 billion, over 7000 employees, and a supply chain heavily dependent on petrochemicals.

Founder and Chairman Ray Anderson presented this challenge to the organization in 1994. "After 21 years of unwittingly plundering the earth, I read Paul Hawken's book *The Ecology of Commerce* (Harper 1993). . . . It convicted me on the spot, not only as a plunderer of Earth, but also as part of an industrial system that is destroying Earth's biosphere, the source and nurturer of all life. . . . I was struck to the core by Hawken's central point, that only business and industry, the major culprit, is also large enough, powerful enough, pervasive enough, wealthy enough, to lead humankind away from the abyss toward which we are plunging. It was an epiphanal experience for me, a 'spear in the chest.' . . . I myself became a recovering plunderer. At Interface we call this new direction, climbing Mount Sustainability, the point at its peak symbolically representing zero environmental 'footprint'—our definition of sustainability for ourselves, to reach a state in which our petro-intensive company (energy and materials) takes nothing from the earth that is not naturally and rapidly renewable, and does no harm to the biosphere: zero footprint."

As a result, Interface has undergone considerable transformation in its effort to reorient the entire organization. Some positive results were achieved in the beginning. Through its waste elimination drive, the company has saved $165 million over five years, paying for all of its sustainability work and delivering 27 percent of the group's operating income over the period. Over and above that, since 1994, Interface, Inc. has reduced its "carbon intensity"—its total supply chain virgin petrochemical material and energy use in raw pounds per dollar of revenue—by some 31 percent. However, Interface recognized that sustainability means far more than that.

The company developed a shift in strategic orientation based on a "seven-step" sustainability framework, using the systems thinking of The Natural Step (www.naturalstep.org/). These steps include eliminating waste (not just physical waste, but the whole concept of waste); eliminating harmful emissions; using only renewable energy; adopting closed loop processes; using resource-efficient transportation; energizing people (all stakeholders) around the vision; and redesigning commerce so that a service is sold that allows the company to retain ownership of its products and to maximize resource productivity.

Throughout Interface, all employees were trained in the principles of systems thinking. They were required to examine the impact of their work and how they could work more sustainably in their business area. Training was necessary, according to Anderson, because traditional education "continues to teach economics students to trust the 'invisible hand' of the market, when the invisible hand is clearly blind to the externalities. . . . The truth is, we have an essentially illiterate populace when it comes to the environment." The feedback on this training has been very positive and a great deal of progress has been made as a result. However, there were three areas where Interface could have improved the process.

The first is always establishing a positive environment for inspired employees, fresh from their training courses, to return to. The company found that employees became passionate as their understanding of sustainability grew, and they needed an outlet for action. Although there were many areas of good supportive management across the business, there were also too many areas where local managers were not prepared well enough to facilitate motivated employees wanting to make a difference. Issues of management and leadership explain why some of the expected progress did not happen in certain areas.

Second, people engage in different ways with sustainability issues, and learning programs need to provide the space to explore these differences. Programs need to be flexible enough to go into detail on a hot issue such as climate change, while the next question may well be about equity of resource use. To keep people motivated, programs need to maintain this flexibility.

Third, follow-up was not quick enough; it takes much more than two days for people to really understand sustainability. Sustainability issues need to be revisited again and again, as employees begin to understand how it impacts their daily lives. It is a big commitment to revisit these issues on an ongoing basis, but the company recognized that it was vital for employees to continually buy in.

Interface has also learned the importance of making sustainability a "whole company" approach. Those who

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