
Παγοσμιο Business
Negócios Internacionais
التجارة العالمية
Gli Affari Internazionali
Los negocios internacionales
Internationales Geschäft
Affaires Internationales
International Business
Los negocios internacionales
國際商務
Internationales
Παγοσμιο Business
國際商務
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Interna
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التجارة العالمية
Gli Affari Internazionali

section one

The Nature of International Business

Section One describes the nature and scope of international business and introduces the three environments in which international business managers must operate. How well they perform in their undertakings will depend in great measure on their understanding of domestic, international, and foreign environments.

Chapter 1 presents the concepts of the three environments and their forces. From the history of international business, we learn that although the international firm existed before the Civil War, it differed markedly from the present-day global company, which is characterized by its explosive growth and closer central control of foreign operations.

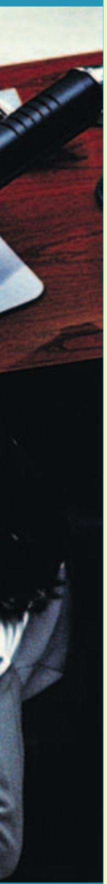
In Chapter 2, information is presented to help you comprehend the dynamic growth and the magnitude of both international trade and foreign investment. We discuss why firms go abroad, and we examine the seven dimensions along which managers can globalize if they take their companies international.

An overview of the theories of international trade and investment is given in Chapter 3. A basic understanding of this material will help explain the actions already taken by managers and by government officials and provide insight into what they plan to do in the future.

1 The Rapid Change of International Business

In the past, complex international transactions were the domain of diplomats and international policy and business experts. Today a converging set of powerful economic, technological, demographic and geopolitical trends will demand that all citizens, not just the elite, have that kind of global fluency. Knowledge of the world is no longer a luxury, it is a necessity.

—*Nicholas Platt, president emeritus of the Asia Society*



Why You Need International Business Experience and How to Get It

Gary Ellis, a young assistant controller for Medtronic, a Fortune 500 manufacturer of pacemakers and other medical equipment, was thought to be on the fast track for a top management position. However, company executives felt he first needed broader experience, so they sent him to head their European headquarters in Belgium. In his new job Gary was responsible for many top-level duties and worked with an array of officials (labor, government, production, and marketing, as well as financial).

Two years later, when the corporate controller's job in the company's home office in Minneapolis became vacant, Ellis was given the job. Bill George, Medtronic's CEO, summed up the company philosophy regarding necessary experience: "Successful executives of the future will have all lived in another country for several years."[a]

Medtronic is not the only firm with this policy. At FMC Corp., a heavy machinery and chemicals producer, the vice president for human resources says that his company believes that "no one will be in a general management job by the end of the decade who didn't have international exposure and experience."[b] Evidently, the boards of directors of many other American corporations have the same policy. Companies such as McDonald's, Coke, Kellogg, Alcoa, Altria, and Schering-Plough have all appointed leaders who had extensive experience as the heads of international operations. William Sullivan, the CEO of Agilent Technologies, commented on his three years in Singapore as an operations manager by saying, "It was a real career changer. In today's environment, having that overseas experience is a big deal."[c] As Carlos Gutierrez, who was the CEO of Kellogg before becoming the U.S. secretary of commerce, said, "Having a foreign perspective gives you an advantage not only for doing business outside the U.S. but domestically, where we have the most diverse society in the world. There's a built-in understanding that differences exist and are good."[d]

Although many American managers want their top executives at company headquarters to have years of foreign experience, do CEOs of the major firms recognize the value of internationalized business education for all employees in management? Surveying the CEOs of *Forbes*'s "100 Largest Multinational Firms" and *Fortune*'s "America's 50 Biggest Exporters," we found that (1) 79 percent believed that all business majors should take an introduction to international business course; (2) about 70 percent felt that business graduates' expertise in foreign languages, international aspects of functional areas (e.g., marketing, finance), and business, human, or political relations outside the United States is an important consideration in making hiring decisions; and (3) a majority of the respondents believed that a number of courses in the international business curriculum (e.g., international marketing, international finance, export–import, international management) are relevant to their companies.

It appears from our study, then, that the CEOs of major American firms doing business overseas are convinced that the business graduates they hire should have some education in the international aspects of business. Most seem to agree with the executive vice president of Texas Instruments, who said, "Managers must become familiar with other markets, cultures, and customs. That is because we operate under the notion that it is 'one world, one market,' and we must be able to compete with—and sell to—the best companies around the world."

CONCEPT PREVIEWS

After reading this chapter, you should be able to:

appreciate the dramatic internationalization of markets

understand the various names given to firms that have substantial operations in more than one country

understand the five kinds of drivers, all based on change, that are leading international firms to the globalization of their operations

comprehend why international business differs from domestic business

describe the three environments—domestic, foreign, and international—in which an international company operates

Clearly, the top executives from some of the largest corporations in the world are saying that they prefer business graduates who know something about markets, customs, and cultures in other countries. Companies that do business overseas have always needed some people who could work and live successfully outside their own countries, but now it seems that managers wanting to advance in their firms must have some foreign experience as well.

Did you note the reason for this emphasis on foreign experience for managers? It is increased involvement of the firm in international business. The top executives of many corporations want their employees to have a global business perspective. What about companies that have no foreign operations of any kind? Do their managers need this global perspective? They do indeed, because it will help them not only to be alert for both sales and sourcing opportunities in foreign markets but also to be watchful for new foreign competitors preparing to invade their domestic market. In addition, according to recruiters, foreign experience reflects independence, resourcefulness, and entrepreneurship. People who work and support themselves overseas tend to be inquisitive, adaptive, and flexible—qualities that are valuable in today's work environment.

The realization that overseas experience is important for career advancement has heightened the competition for foreign assignments. For example, nearly 500 mid-level engineering and technical managers in GE's aircraft engine unit applied for the 14 positions in the company's global marketing training program. The global human resource manager at another GE unit, GE Medical Systems, claims, "We have far more candidates than we have jobs offshore."[e] Kellogg's Gutierrez commented, "When you're working at one small international unit, you get to meet more key people" than would middle managers posted at headquarters, because the company's executives come to visit the international operations.[f] In the face of such competition, what can you do to improve your chances to obtain an overseas post?

It can be valuable to take classes in the area of international business, perhaps leading to a degree in an international business–related field. In addition, even while you are in school or shortly after graduation, consider going abroad to study, to work (whether as a business intern, as a teacher, or even in such positions as bartender or child care provider), or to volunteer in community development activities. The experience of living and working in another culture can be important in personal development, as well as being a career booster. As Lauren DiCioccio said of her international experience as a cook and farmworker, "When I went, I was hesitant because people looked at me and were surprised that I would graduate with a degree from Colgate and take time off to work and backpack around Australia. So when I came back and had it on my résumé, I couldn't believe all of the interviews were about my time in Australia." Brandon Steiner, a 24-year-old teaching in Japan, said, "Having international experience under your belt—employers are enthusiastic. It looks good and is not a bad step out of college. It shows you already are open-minded."[g] Upon your return, this experience may help you to land a job that involves international business activities. Although most positions are based in a person's home country, they may involve some international travel to see clients or perform other job-related activities, thus providing an opportunity for you to further broaden your international skills and experience.

If you already have a job, you can enhance your opportunities for international experience by making your boss and the human resource management department personnel aware of your interest and the fact that you have studied international business. Look for opportunities to remind them that you continue to be interested (performance review is a good time). Try to meet people in the home office who work with the company's foreign subsidiaries as well as visitors from overseas. As evidence of your strong interest in foreign employment, take additional international business courses and study foreign languages. Make sure that people in your company know what you are doing.

Throughout this book you will find examples of ways to develop, apply, and promote your international skills and experience, through features such as "Building Your Global Résumé" and "Your Global Mentor." Hopefully, through effective application of these suggestions, you will build a successful foundation for your own international experiences! ■

[a]"The Real Fast Track Is Overseas," *Fortune,* August 21, 1995, p. 129.

[b]"Path to Top Job Now Twists and Turns," *The Wall Street Journal*, March 15, 1993, p. B1.

[c]Erin White, "Future CEOs May Need to Have Broad Liberal-Arts Foundation," *The Wall Street Journal*, April 12, 2005, p. B4.

[d]Carol Hymowitz, "Why American Multinationals Have More Foreign-Born CEOs," *The Wall Street Journal Europe,* May 25, 2004, p. A10.

[e]"The Fast Track Leads Overseas," *BusinessWeek,* November 1993, pp. 64–68.

[f]Hymowitz, "Why American Multinationals Have More Foreign-Born CEOs."

[g]Hillary Chura, "A Year Abroad (or 3) as a Career Move," *New York Times,* February 25, 2006, www.nytimes.com/2006/02/25/business/worldbusiness/25abroad.html?ex=1298523600&en=6df6d07733a344ed&ei=5088&partner=rssnyt&emc=rss (July 5, 2006).

What about you? Are you involved in the global economy yet? Please read the nearby Worldview box, "Are You Really Buying American?" and then think back to how you began your own day. After you awoke, you may have looked at your Casio watch for the time, checked your Nokia cell phone for messages, and turned on your Samsung TV for the news and weather while you showered. After drying your hair with a Conair dryer, maybe you quickly swallowed some Dannon yogurt and a glass of Mott's apple juice, along with a cup of Taster's Choice coffee, brushed your teeth with Close-Up toothpaste, and drove off to class in your Honda with its Firestone tires and a tank full of Shell gasoline.

Meanwhile, on the other side of the world, a group of Japanese students dressed in Lacoste shirts, Levi's jeans, and Nike shoes may be turning off their Dell computers in the computer lab and debating whether they should stop for hamburgers and Cokes at McDonald's or coffee at Starbucks. They put on their Oakley sunglasses, get into their Ford Mustangs with Goodyear tires, and drive off.

What do you and the Japanese students have in common? You are all consuming products made by *foreign-owned companies.* This is international business.

A Starbucks coffee store in Beijing China. Chairman Howard schultz said China is the coffee Chain's No.1 growth market.

All that you have read so far points to one salient fact: *All managers need to have a basic knowledge of international business to be able to meet the challenge of global competition.*

International Business Terminology

Acquiring this knowledge consists, in part, of learning the special terminology of international business, an important function, as you already know, of every introductory course. To assist you in learning the international business "language," we've included a glossary at the end of the book and listed the most important terms at the end of each chapter. They also appear in bold print where they are first used in the text, with their definitions in the margin.

MULTINATIONAL, GLOBAL, INTERNATIONAL, AND TRANSNATIONAL COMPANIES

Because international business is a relatively new discipline and is extremely dynamic, you will find that the definitions of a number of terms vary among users. For example, some people use the words *world* and *global* interchangeably and *multinational* to describe a business with widespread international operations. (The nearby Worldview, "Global Company—By Whose Definition?" has additional discussion of this issue.) Others define a *global firm* as one that attempts to standardize operations in all functional areas but that responds to national market differences when necessary. In contrast, a *multinational company* has been defined by some as a kind of holding company with a number of overseas operations, each of which is left to adapt its products and marketing strategy to what local managers perceive to be unique aspects of their individual markets. Some academic writers suggest using terms such as *multidomestic* and *multilocal* as synonyms for this definition of *multinational*.

You will also find those who consider *multinational corporation* to be synonymous with *multinational enterprise* and *transnational corporation*.[1] However, the United Nations and the governments of many developing nations have been using *transnational* instead of *multinational* to describe any firm doing business in more than one country. The specialized agency, the United Nations Conference on Trade and Development (UNCTAD), for example,

WORLD view

Are You Really Buying American?

Consider the following scenario of a "typical" American family:

The Boltons, Mike and Barbara, live in New York City. Mike is a security consultant with the security services firm Wackenhut Corporation. Barbara is an advertising executive in the Global Head Office of J. Walter Thompson.

On her way home from work, Barbara listens to the new Dixie Chicks CD in her Chrysler van. She stops for gas at the Shell station, then drives to the grocery store. She fills her shopping cart with a variety of items, including Ortega taco shells and salsa, Hellmann's mayonnaise, ReaLemon lemon juice, Ragu spaghetti sauce, Carnation Instant Breakfast drink, a six-pack of Dr. Pepper, a quart of A&W Root Beer, a container of CoffeeMate nondairy coffee creamer, a can of Chicken-of-the-Sea tuna, Lipton tea, Mott's apple sauce, a half-dozen cans of Slim-Fast, frozen Bird's Eye vegetables, some Evian water, and several packages of Stouffer's Lean Cuisine frozen dinners. For a treat, she picks up a pint of Ben and Jerry's ice cream and a Baby Ruth candy bar. She also grabs several cans of Alpo for their dog, Sassy, and a box of Friskies and a bag of Tidy Cat cat litter for their cat, Millie. She selects a Philip Roth novel and a copy of *Elle* magazine, then goes down the toiletries aisle for some Dove soap and Jergen's moisturizing lotion. Before finishing, she calls Mike on her Samsung cellular phone from T-Mobile to see if there's anything else he needs. He asks her to pick up some PowerBars for him to take to the gym during his lunchtime workouts next week. On her way home, she stops at the bookstore and picks up a book—*The Da Vinci Code.*

After finishing up at work, Mike gets into his Jeep Cherokee and puts the new Ben Harper and the Innocent Criminals CD into the Clarion car stereo. He stops at the Amoco station to fill his gas tank and checks the air pressure in his Firestone tires. He makes a quick stop at Computerland to pick up the newest release of WordPerfect, signing the credit card slip with his Bic pen. Then he goes to the video store to pick up *The Pink Panther* on DVD, before heading to the package store for a bottle of Wild Turkey bourbon. He walks next door to the sporting goods store to pick up some Wilson racquetballs for his workouts next week and then heads home.

Barbara's favorite TV show, *Jeopardy!,* is just starting as Mike comes in the door, so she pours herself a glass of Beringer wine from Napa Valley and changes the Dish TV satellite channel on their Magnavox television so that she can watch her show. Before he prepares dinner, Mike opens a Miller beer and leafs through the day's mail, setting the most recent issue of *Road and Track* magazine aside to read later. Soon, dinner is ready and they sit down for their meal, while watching a show on the National Geographic Channel.

While this may sound like a very typical evening for many Americans, foreign-owned firms produced nearly every item that the Boltons purchased or consumed:

- Wackenhut is owned by Group 4 Falck of Denmark.
- J. Walter Thompson is owned by the WPP Group of the United Kingdom.
- Germany's DaimlerChrysler manufactures Chryslers and Jeeps.
- The British-Dutch company Royal Dutch Shell owns Shell.

employs the following definition: "A transnational corporation is generally regarded as an enterprise comprising entities in more than one country which operate under a system of decision-making that permits coherent policies and a common strategy. The entities are so linked, by ownership or otherwise, that one or more of them may be able to exercise a significant influence over the others and, in particular, to share knowledge, resources and responsibilities with the others."[2] More recently, some academic writers have employed the term *transnational* for a company that combines the characteristics of global and multinational firms: (1) trying to achieve economies of scale through global integration of its functional areas and, at the same time, (2) being highly responsive to different local environments (a newer name is *multicultural multinational*).[3] Managers, though, sometimes define a transnational as a company formed by a merger of two firms of approximately the same size that are from two different countries. Examples of such companies include Unilever (Dutch-English, food), TeliaSonera (Swedish-Finnish, telecommunications), Shell (Dutch-English, oil), and ABB (Swedish-Swiss, electrotechnical, power generating).

- Nestlé of Switzerland produces Alpo, Baby Ruth, Carnation Instant Breakfast, CoffeeMate, Friskies, Ortega, PowerBar, Stouffer's Lean Cuisine, and Tidy Cat.
- Unilever, a Dutch-based company, makes Slim-Fast, Dove bars, Hellmann's, Ragu, Lipton, Bird's Eye, and Ben & Jerry's.
- Cadbury Schweppes of the United Kingdom owns Mott's, Dr. Pepper, A&W Root Beer, and ReaLemon.
- Groupe Danone of France produces Evian water.
- Chicken-of-the-Sea is made by Thai Union International of Thailand.
- Japan's Kao owns Jergen's.
- Samsung cell phones are made by Korea's Samsung.
- T-Mobile is owned by Deutsche Telekom of Germany.
- Bertelsmann AG of Germany owns Random House and Doubleday (which published *The Da Vinci Code*).
- EMI of the United Kingdom owns Virgin Records, which releases Ben Harper and the Innocent Criminals CDs.
- *Road and Track* and *Elle* are published by Hachette Filipacchi Médias, a wholly owned subsidiary of France's Lagardére.
- Japan's Clarion Co. Ltd. Produces Clarion car stereos.
- Britain's BP owns Amoco.
- Japan's Bridgestone owns Firestone.
- Computerland is owned by Synnex Information Technologies, Inc., which is 56 percent owned by MiTac International Corporation of Taiwan.
- Corel Corporation of Canada owns WordPerfect.
- Bic of France produces Bic pens.
- Columbia Pictures, owned by Sony of Japan, released *The Pink Panther,* and Sony Pictures Television distributes *Jeopardy!* The Dixie Chicks CDs are produced by Sony BMG Music Entertainment (a 50-50 joint venture of Sony and Bertelsmann of Germany).
- Pernod Ricard of France produces Wild Turkey bourbon.
- Amer Group of Finland owns Wilson Sporting Goods.
- Beringer Winery of Napa, California, is owned by Australia's Foster's Group.
- News Corporation of Australia owns DirectTV and the National Geographic Channel.
- Magnavox is owned by Philips of the Netherlands.
- SABMiller of the United Kingdom makes Miller beer.

This simple example reflects the impact of extensive foreign investments in the United States, especially in recent years. Even some of the best-known "American" products and brands are now produced by foreign firms. "Why invest in the U.S.A.? It's simple. It's a great economy, and it produces great returns. Beyond that, the U.S. is so competitive that we know the things we learn operating there will help us in all of our other markets around the world," said Sir Ian Prosser, former chairman of the U.K.-based Six Continents hotel group.

Investments have also flowed outward from the United States. American companies such as Coca-Cola, Starbucks, McDonald's, the Gap, Microsoft, and Levi's are found in Japan, South Korea, Australia, Singapore, and nearly every European nation. American companies have also purchased a range of foreign companies and brands. Ford Motor Company owns the Jaguar, Land Rover, Aston Martin, and Volvo automobile brands; General Motors has purchased all or part of such companies as Daewoo, Opel, Suzuki, Vauxhall, and Saab.

With the exception of a rather small number of deals such as the potential takeover of Unocal by China's CNOOC, there has been almost no negative backlash among Americans to the flood of foreign investment into their country. Perhaps Americans realize that the buying and selling of companies around the world is just part of globalization, or perhaps Americans just do not realize how much their daily lives are impacted by foreign-owned companies. In fact, the livelihood of many Americans may depend on foreign investment, and approximately one in six U.S. jobs is tied to international trade and investment.

Source: From T. R. Reid, "Buying American? Maybe Not; Many U.S. Brands European-Owned," *Washington Post*, May 18, 2002; Nicholas Platt, "Make Global Skills a Top Priority," *Financial Times*, July 2, 2004, p. 13; and company Web sites (accessed July 3, 2006).

DEFINITIONS USED IN THIS TEXT

To avoid confusion due to the range of different definitions of terms in international business, in this text we will employ the definitions listed below, which are generally accepted by managers:

1. *International business* is business whose activities are carried out across national borders. This definition includes not only international trade and foreign manufacturing but also the growing service industry in areas such as transportation, tourism, advertising, construction, retailing, wholesaling, and mass communications.
2. *Foreign business* denotes the operations of a company outside its home or domestic market; many refer to this as business conducted within a foreign country. This term sometimes is used interchangeably with *international business* by some writers.
3. A **multidomestic company (MDC)** is an organization with multicountry affiliates, each of which formulates its own business strategy based on perceived market differences.

multidomestic company (MDC)
An organization with multicountry affiliates, each of which formulates its own business strategy based on perceived market differences

global company (GC) An organization that attempts to standardize and integrate operations worldwide in all functional areas

international company (IC) Either a global or a multidomestic company

4. A **global company (GC)** is an organization that attempts to standardize and integrate operations worldwide in most or all functional areas.*
5. An **international company (IC)** is a global or multidomestic company.

Although we primarily use the terms *global, multidomestic,* and *international* firms or companies, at times we may use *multinational enterprise (MNE)* or *multinational company (MNC)* interchangeably with *international company (IC),* inasmuch as both terms are employed in the literature and in practice.

A Brief History of International Business

While international business as a discipline is relatively new, international business as a business practice is not. Well before the time of Christ, Phoenician and Greek merchants were sending representatives abroad to sell their goods. Subsequently, a vast expansion of agricultural and industrial production in China stimulated the emergence of an internationally integrated trading system. The saying that "all roads lead to China" had relevance within the international trade system of medieval times.

The impact of the emerging international trading system was extensive. Politics, the arts, agriculture, industry, and other sectors of human life were profoundly influenced by the goods and ideas that came with trade. Public health was also impacted. An interesting precursor to contemporary concerns about global health epidemics, such as severe acute respiratory syndrome (SARS) and avian flu, was international trade's association with the spread of the plague, one of the worst natural disasters in history. Believed to have originated in Asia, the plague moved west with traders and soldiers, carried by oriental rat fleas that lived on rodents that stowed away on ships and caravans. Called the Black Death in Europe and repeated in waves from the mid-1300s through the 1500s, the plague ravaged cities, caused widespread hysteria, and killed one-quarter of China's people and one-third of the population of Europe.[4]

The rise of the Ottoman Empire before 1300, ultimately spanning Europe, North Africa, and the Middle East, profoundly influenced the emerging trade routes for people, goods, money, animals, and microorganisms that spanned from England to China, across the Mediterranean and Northern Africa, and through Central Asia and the Indian Ocean region. The powerful central location of the Ottomans within this trading web had the effect of raising the cost of Asian trade for the Europeans. This spawned a search for sea routes to Asia, including expeditions that discovered the Americas.

In 1600, Great Britain's British East India Company, a newly formed trading firm, began to establish foreign branches throughout Asia, an action soon followed by many of the other European nations intent on exploiting trade opportunities for national advantage, including Portugal, the Netherlands, and France. In 1602, the Dutch East India Company was formed to carry out colonial activities in Asia and to open ocean trade routes to the East. The first company to issue stock, it is also frequently identified as the world's first multinational corporation.[5] By the end of the 1600s, ships commissioned by European trading companies regularly traveled to Asia via an interconnected Atlantic, Indian, and Pacific ocean system of government-protected trade routes. Their goal was to acquire goods for sale or resale within various Asian markets and ultimately to return to Europe with valuable cargoes of cloth, spices, and other goods that would yield significant profits for investors. The 17th and 18th centuries have frequently been termed the "age of mercantilism" because the power of nations depended directly on the sponsorship and control of merchant capital, which expanded under the direct subsidization and protection of national governments. The concept of mercantilism is discussed in Chapter 3.

Colonial traders in the Americas began operating in a similar fashion in the 1700s. Early examples of American foreign direct investment are the English plants set up by Colt Fire Arms and Ford† (vulcanized rubber), which were established before the Civil War. Both operations failed, however, after only a few years.

*Note that in this definition global ownership is not a requirement. However, you should be aware that some people do include this along with other criteria, such as the ratio of foreign to total employment or foreign to total assets.

†This Ford was no relation to Henry Ford.

WORLD view

Global Company—By Whose Definition?

After talking about having to be a multinational firm (a collection of national businesses) to gain a competitive advantage, consultants and managers turned to the buzzword *globalization* as a strategy to beat their competitors. Unfortunately, *globalization* and its root, *global,* are overused and misused in international business because of the prestige that managements believe these words bring to their companies. Here are elements of various definitions, which state that a global company is an organization that:

1. Searches the world for (*a*) market opportunities, (*b*) threats from competitors, (*c*) sources of products, raw materials, knowledge, innovation, and financing, and (*d*) personnel. In other words, it has global vision.
2. Maintains a presence in key markets around the world.
3. Looks for similarities, not differences, among markets.
4. Standardizes operations worldwide in one or more of the firm's functional areas.
5. Integrates its operations worldwide.

There are those who believe a global firm must possess all of these characteristics and have a worldwide locus of control and ownership. Critics of this definition claim there is no global firm by that definition. To see how firms define the term *global* to suit their purposes, compare the following two situations:

- Allen-Edmonds is a small, privately held shoe manufacturer in Port Washington, Wisconsin, whose sales rose from $9.5 million in 1978 to an estimated $70 million currently. The president explains that the firm accomplished this by "choosing a market niche—manufacturing high-quality dress shoes for men, and by viewing the whole globe as our marketplace. Today, although we produce all our shoes in [Wisconsin and Maine], Allen-Edmonds is a *global manufacturing company.*"[a]
- Emerson's management describes its company this way: "Emerson is a *global company* that brings together technology and engineering to provide innovative solutions for our customers in a wide range of industrial, commercial, and consumer markets. . . . We have grown to become one of the world's leading manufacturing companies with operations around the globe. . . . Emerson has more than 60 divisions that operate approximately 275 manufacturing locations worldwide. . . . With a global presence spanning 150 countries, Emerson is advantageously positioned with the infrastructure, knowledge and experience to provide integrated product solutions around the world. . . . Over the past 100-plus years, Emerson has grown from a regional manufacturer into a global technology solutions powerhouse."[b]

Although the same term is used in both situations by both companies, the definitions are different. Allen-Edmonds' president claims the title *global* simply because his company exports to agents and distributors in 33 nations. Presumably, he calls his firm a global manufacturing company because Allen-Edmonds does its own manufacturing instead of subcontracting from China, Indonesia, and other Asian nations as Nike and Adidas do. For other firms, such as Emerson, attaining global company status requires meeting additional criteria, thereby reducing the number of companies able to reach that goal. Their definition is essentially based on marketing, production, supply chain, and technological globalization.

Recently, however, the definition of the term *global company* has taken on still more new criteria. A global company is now said to be more culturally diverse and to incorporate much more worldwide standardization in its marketing, technical, and production functions. To utilize its worldwide assets more efficiently against competitors, the new global company places production plants and other parts of its value chain in those places worldwide where the company can gain the benefits of lower-cost labor and better-educated workers. Improvements in communications technology such as electronic data interchange (EDI) data exchange (invoices, purchase orders) between computers of manufacturers and suppliers, international networking, and teleconferencing have made it possible for project teams around the world to meld ideas from different cultures for greater exploitation of geographically dispersed knowledge and to promote increased innovation.

Organizations are also removing the barriers within their companies to allow the free flow of people as well as ideas, suggesting a globalization in the corporate mind-set. Many firms are offering top management positions to citizens from countries other than the home country. Some are even calling this newly defined global company by a new name: *multicultural multinational.*

The aims of the "multicultural multinational" are (1) to be responsive to local markets, (2) to produce and market its products worldwide, and (3) to exploit its knowledge and technological capabilities on a global basis—elusive goals reached by few companies so far. Although it has become fashionable to speak of global corporations as being "stateless" or "borderless," measurement by any criterion shows that such firms don't exist. Each has a home government and tax authority and is owned by shareholders from primarily one nation, which essentially makes it a national firm with international operations.

[a]Allen Edmonds, "Corporate Fast Facts," www.allenedmonds.com/webapp/wcs/stores/servlet/AllenEdmonds/about/Allen-Edmonds_PressKit_2005_English.pdf (July 3, 2006).

[b]"Emerson's Global Reach," www.gotoemerson.com/global_reach/index.html (July 3, 2006); "About Emerson," www.gotoemerson.com/about_emerson/index.html (July 3, 2006); "Emerson Company History," www.gotoemerson.com/about_emerson/ae.ch.html (July 3, 2006).

Source: Vijay Govindarajan and Anil K. Gupta, *The Quest for Global Dominance* (San Francisco: Jossey-Bass, 2001); Yves Doz, Jose Santos, and Peter Williamson, *From Global to Metanational* (Boston, MA: Harvard Business School Press, 2001).

BUILDING YOUR GLOBAL RÉSUMÉ

Finding International Job Opportunities/Internship

If you are interested in an international career but not sure how to find one, you can begin your search on the Internet. Numerous Web sites maintain listings for private industry and government jobs. Here are some good sites:

- The *Riley Guide* has hundreds of worldwide listings for companies and governments. The "Targeting and Research" section has information on business and employer research and living and working overseas. (www.rileyguide.com)
- *International Career Opportunities* (University of Montana) maintains a huge list of comprehensive sites for international jobs in a variety of fields and at a variety of international locations. (www.umt.edu/career/workabroad/international.htm)
- *"Go Global! The International Careers Web Site"* (University of Wisconsin) has links to numerous university Web sites that list employment opportunities from all over the world. Some will submit résumés to recruiters. (wiscinfo.doit.wisc.edu/globalstudies/goglobal/site-lists/external-centers.htm)
- *Internships Abroad* is an internship program offered through Ohio University for internships in the United Nations, in the U.S. Department of State, and in over 65 countries. (www.ohiou.edu/studyabroad/internships.htm)
- The *U.S. Department of Commerce* offers various intern programs. For example, Student Employment Opportunities covers a broad range of student employment and internship opportunities. (http://ohrm.os.doc.gov)
- The *U.S. Department of State* provides an extremely helpful description of student employment programs, with good information on how to apply for them. The Department of State holds oral prep sessions throughout the United States and Asia to assist candidates for the Foreign Service oral exam. (www.careers.state.gov/index.html)
- The *International Finance Corporation of the World Bank Group* hires recent graduates for a two-year period as investment analysts and then encourages them to get a graduate degree and become a member of the Global Transaction Team. (www.ifc.org)
- The *Organization of American States* runs a program designed for juniors, seniors, and graduate students at the university level that allows them to work within their fields of study. They must have at least a 3.0 GPA and command of two of the four official languages: English, Portuguese, Spanish, and French. The program has three sessions during the year: fall, winter-spring, and summer. (www.oas.org/EN/PINFO/HR/gen_information.htm)
- *Escape Artist* (www.escapeartist.com/jobs/overseas1.htm)
- *International Jobs Center* (www.internationaljobs.org)
- *Work Abroad* (http://workabroad.monster.com)
- *Jobs Abroad* (www.jobsabroad.com)

If you are a citizen of the United States, you will need a valid passport to travel internationally: http://travel.state.gov/passport/passport_1738.html.

A number of multinational companies existed in the late 1800s. One of the first to own foreign production facilities, have worldwide distribution networks, and market its products under global brands was Singer Sewing Machine. In 1868, it built a factory in Scotland, the first successful American venture into foreign production. By 1880, the company had become a global organization with an outstanding international sales organization and several overseas manufacturing plants. Other firms, such as J&P Coats (United Kingdom) and Ford, soon followed, and by 1914, at least 37 American companies had production facilities in two or more overseas locations.[6] Interestingly, and quite a contrast to today's situation, in the 1920s *all* cars sold in Japan were made in the United States by Ford and General Motors and sent to Japan in knocked-down kits to be assembled locally. European companies were also moving overseas. For example, Friedrich Bayer purchased an interest in a New York plant in 1865, two years after setting up his plant in Germany. Then, because of high import duties in his overseas markets, he proceeded to establish plants in Russia (1876), France (1882), and Belgium (1908).[7]

As you have just read, multinational firms existed well before World War I, and the level of intracompany trade of multinationals in 1930, as a percentage of overall world trade, may have exceeded the proportion at the end of the 20th century.[8] Yet only in recent years have multinationals become the object of much discussion and investigation, especially concerning the increasing globalization of their operations. What is globalization? What are the reasons for globalization?

Globalization—What Is It?

Although globalization is discussed everywhere—television shows, Internet chat rooms, political demonstrations, parliaments, management boardrooms, and labor union meetings—so far it has no widely accepted definition. In fact, its definition continues to broaden. Now, for example, social scientists discuss the political, social, environmental, historical, geographic, and even cultural implications of globalization.[9] Some also speak of technological globalization, political globalization, and the like.

However, the most common definition and the one used in international business is that of *economic globalization*—the tendency toward an international integration of goods, technology, information, labor, and capital, or the process of making this integration happen. The term *globalization* was first coined by Theodore Levitt in a *Harvard Business Review* article in which he maintained that new technologies had "proletarianized" communication, transport, and travel, creating worldwide markets for standardized consumer products at lower prices. He maintained that the future belonged to global corporations that did not cater to local differences in taste but, instead, adopted strategies that operated "as if the entire world (or major regions of it) were a single entity; [such an organization] sells the same things in the same way everywhere."[10]

Interestingly, at the 1999 World Economic Forum (WEF) annual meeting in Davos, Switzerland, a new word, *globality,* was introduced as the meeting's theme. Daniel Yergin, coauthor of *The Commanding Heights,* decided that since globalization is a process, a different word was needed for "the results of this process—a place, a condition, the situation that comes afterward," something that is unhampered by time zones or national boundaries. Professor Klaus Schwab, founder of the WEF, explained, "We wanted to look beyond the economic dimensions of what is happening. It is a globality." Bill Gates announced at the meeting that Microsoft would add *globality* to Microsoft's dictionary.[11] German sociologist Ulrich Beck stated, "Globality means that from now on nothing that happens on our planet is only a limited local event; all inventions, victories, and catastrophes affect the whole world."[12] Although globalization forces may affect all nations, not all of them have achieved the same extent of globalization. Table 1.1 provides two alternative efforts to assess the degree of globalization of different nations. As you can see, the ranking of different countries is strongly impacted by the dimensions of globalization being evaluated, highlighting the difficulties associated with measuring this complex concept.

GLOBALIZATION FORCES

Five major kinds of drivers, all based on change, are leading international firms to the globalization of their operations: (1) political, (2) technological, (3) market, (4) cost, and (5) competitive:

1. Political There is a trend toward the unification and socialization of the global community. Preferential trading arrangements, such as the North American Free Trade Agreement and the European Union, that group several nations into a single market have presented firms with significant marketing opportunities. Many have moved swiftly to gain access to the combined markets of these trading partners, either through exporting or by producing in the area.

Two other aspects of this trend are contributing to the globalization of business operations: (a) the progressive reduction of barriers to trade and foreign investment by most governments, which is hastening the opening of new markets by international firms that are both exporting to them and building production facilities in them, and (b) the privatization of much of the industry in formerly communist nations and the opening of their economies to global competition.

2. Technological Advances in computers and communications technology are permitting an increased flow of ideas and information across borders, enabling customers to learn about foreign goods. Cable and satellite TV systems in Europe and Asia, for example, allow an advertiser to reach numerous countries simultaneously, thus creating regional and sometimes global demand. Global communications networks enable manufacturing personnel to coordinate production and design functions worldwide so that plants in many parts of the world may be working on the same product.

The Internet and network computing enable small companies to compete globally because they make possible the rapid flow of information regardless of the physical location of

TABLE 1.1 Globalization Rankings: The KOF Index of Globalization and the A. T. Kearney/Foreign Policy Globalization Index

KOF 2006 Index of Globalization					A. T. Kearney/Foreign Policy 2005 Globalization Index					
Overall Globalization Rank	**Nation**	**Economic Globalization Rank**	**Social Globalization Rank**	**Political Globalization Rank**	**Overall Globalization Index Rank**	**Nation**	**Economic Integration Ranking**	**Personal Contact Ranking**	**Technological Connectivity Ranking**	**Political Engagement Ranking**
1	United States	28	1	1	1	Singapore	1	3	11	32
2	Sweden	12	4	5	2	Ireland	2	2	13	19
3	Canada	18	2	8	3	Switzerland	9	1	7	29
4	United Kingdom	27	12	2	4	United States	60	40	1	43
5	Luxembourg	1	14	102	5	Netherlands	5	11	8	4
6	Austria	10	13	12	6	Canada	27	8	2	10
7	France	17	22	3	7	Denmark	29	7	5	13
8	Australia	38	3	36	8	Sweden	12	10	9	16
9	Switzerland	7	9	33	9	Austria	10	5	14	2
10	Hong Kong, China	2	6	123	10	Finland	15	20	6	15
11	Ireland	3	23	24	11	New Zealand	36	16	3	21
12	Singapore	5	7	65	12	United Kingdom	32	12	10	5
13	New Zealand	13	5	59	13	Australia	37	34	4	25
14	Finland	8	11	34	14	Norway	35	15	12	17
15	Japan	44	8	27	15	Czech Republic	11	4	24	35
16	Belgium	6	32	7	16	Croatia	7	6	28	26
17	Netherlands	4	18	44	17	Israel	19	9	16	46
18	Denmark	30	15	15	18	France	24	17	21	3
19	Norway	20	10	30	19	Malaysia	4	19	27	49
20	Germany	35	20	10	20	Slovenia	17	13	20	23

Source: Axel Dreher, "Does Globalization Affect Growth? Evidence from a New Index of Globalization." *Applied Economics* 38, no. 10 (2006), pp. 1091–1110: "Measuring Globalization: The Global Top 20," *Foreign Policy*, May–June 2005, pp. 52–60.

the buyer and seller. Internet videoconferencing allows sellers to demonstrate their products to prospective buyers all over the world without the need to travel. It also permits international companies to hold corporate meetings between managers from headquarters and overseas subsidiaries without expensive, time-consuming travel. In addition, communicating by e-mail on the Internet is faster and more reliable than using postal mail and much less expensive than using a fax machine. Both Internet uses have given home office managers greater confidence in their ability to direct overseas operations.

The Internet and network computing enable small companies to compete globally because they make possible the rapid flow of information regardless of the physical location of the buyer and seller.

The ease of obtaining information and making transactions on the Internet has started to have a profound effect on many firms and especially on business-to-business commerce. Whereas companies formerly used faxes, telephones, or regular mail to complete their transactions, they now use the cheaper and faster Internet. The emergence of third-generation (3G) broadband wireless telecommunications technologies and associated applications promises to further accelerate this trend.

3. Market As companies globalize, they also become global customers. For years, advertising agencies established offices in foreign markets when their major clients entered those markets to avoid having a competitor steal the accounts. Likewise, when an automaker, about to set up a foreign plant where there was no tire factory, asked a tire company if it was interested in setting up a plant in this new market, the response was, "When do you want us there?" It is also quite common for a global supplier to make global supply contracts with a global customer.

Finding the home market saturated also sends companies into foreign markets. According to a recent Dow Jones survey of the world's largest companies, 84 percent of the respondents expect that international markets will generate most of their growth in the next five years.[13] Indeed, since the United States has only about 5 percent of the world's population, the vast proportion of most companies' potential customers are located abroad.

4. Cost Economies of scale to reduce unit costs are always a management goal. One means of achieving them is to globalize product lines to reduce development, production, and inventory costs. The company can also move production or other parts of the company's value chain to countries where the costs are lower. Dramatic reductions in the cost of generating and transmitting information due to innovations in computing and telecommunications, as well as the decline in transportation costs, have facilitated this trend toward relocating activities worldwide.

5. Competitive Competition continues to increase in intensity. New firms, many from newly industrialized and developing countries, have entered world markets in automobiles, computers, and electronics, for example. Another competitive driving force for globalization is the fact that companies are defending their home markets from competitors by entering the competitors' home markets to distract them. Many firms that would not have entered a single country because it lacked sufficient market size have established plants in the comparatively larger trading groups (European Union, ASEAN, Mercosur). It is one thing to be shut out of Belgium, but it is another to be excluded from all Europe.

The result of this rush to globalization has been an explosive growth in international business.

foreign direct investment
Direct investments in equipment, structures, and organizations in a foreign country at a level that is sufficient to obtain significant management control; does not include mere foreign investment in stock markets

EXPLOSIVE GROWTH

Both the size and the number of U.S. and foreign international concerns have been increasing very rapidly.

Foreign Direct Investment and Exporting

One variable commonly used to measure where and how fast internationalization is taking place is the increase in total foreign direct investment (FDI). **Foreign direct investment** refers to direct investments in equipment,

mini MNE

>>A Little Guy Makes Global Business Easier for the Little Guys

DE Technologies, a tiny Virginia-based private company with only six employees and offices in the United States and Canada, has patented a technology for using the Internet/intranet to process sales globally. Intended for small and medium-size enterprises, development of the technology was stimulated by the frustrations that DE Technologies' founder encountered while attempting to arrange international trade deals in Russia for his own small company. Traditional systems for international trade, involving multiple, inefficient, and time-consuming layers of vertical service industries, can require 20 or more forms and 60 days to complete and cost 5 to 40 percent of the cost of the total transaction.

With DE's system, which is called the Electronic Commerce Backbone System (ECBS), small and medium-size firms can automatically export and import goods and services without previous international trade experience. The ECBS allows buyers and sellers to buy products in the currency of the destination country, view product descriptions in the language of the destination country, view digital still or motion video displays of the products for sale, and view the calculations and displays of prices for air, land, and sea transportation; it also ensures direct payment of goods via credit cards or documentary credit.

Procedures such as the preparation and filing of export–import documents, freight, insurance, titles, letters of credit, pro forma invoices, and bills of lading are done by the program. This eliminates the necessity of engaging foreign freight forwarders, export and import agents, and other international channels-of-distribution members. Thus, ECBS reduces the costs of ocean and air freight, banking, and human resources.

Small and medium-size enterprises (SMEs) can become members by paying a small membership fee, which gives them access to the ECBS. A transactional fee of 0.3 percent also is levied. According to the founder of DE Technologies, "the capability of the system will allow thousands of SMEs to compete effectively in the Import/Export business with 'The Big Guys' as the barriers to entry will be lowered tremendously."

The ECBS can be supplemented with the Borderless Order Entry System (BOES), a patented process for electronically managing international trade transactions in an integrated manner. It allows companies to create and file necessary electronic documents (in any currency or language), monitor and track steps in the transaction, calculate applicable freight costs as well as taxes and duties, and perform financial arrangements of a sophisticated nature. The result is a reduction of as much as 30 percent in the costs of conducting international trade transactions. SMEs can export and import products from any nation, using the Internet or Intranets, and thereby expand market share in international markets.

Source: "Cutting through a World of Red Tape," *BusinessWeek Online*, www.businesswe . . . m/smallbiz/0006/te000628.htm?script Framed (June 30, 2000); "Electronic Commerce Backbone System (ECBS)," *DE Technologies Web site*, www.detechnologies.com/ecbs.htm (July 1, 2004); "Information Technology and International Trade Position Paper," *DE Technologies Web site*, www.detechnologies.com/ecbs.htm (July 3, 2006); and "Borderless Order Entry Systems," *DE Technologies Web site*, www.detechnologies.com/boes.htm (July 3, 2006).

structures, and organizations in a foreign country at a level that is sufficient to obtain significant management control. It does not include mere foreign investment in stock markets. In the United States, 10 percent ownership in a company is considered sufficient in order to be listed as FDI; in other countries, an investment is not considered FDI until a share of 20 or 25 percent is reached. The world stock of outward FDI was over $9.7 *trillion* in 2004, which was more than 17 times what it was 24 years earlier, in 1980 (see Table 1.2).

exporting
The transportation of any domestic good or service to a destination outside a country or region; the opposite of importing, which is the transportation of any good or service into a country or region, from a foreign origination point

Note, in Table 1.2, that the total assets of multinational foreign affiliates were $26.5 trillion, generating $17.7 trillion in sales and 53.1 million jobs in 2002. The value of cross-border mergers and acquisitions (M&As) increased from $134 billion in 1995 to $1,144 billion in 2000, before declining to $594 billion in 2001 in response to economic recession in many nations and declining stock markets. The value of cross-border M&As then began increasing again, reaching an estimated $567 billion in 2006.

Of course, a substantial amount of international business involves exporting rather than FDI. **Exporting** is the transportation of any domestic good or service to a destination outside a country or region. It is the opposite of importing, which is the transportation of any good or service into a country or region, from a foreign origination point. Merchandise exports have grown faster than world output in nearly each of the past 55 years. Between 1980 and 2004, the level of world merchandise exports more than quadrupled, from $2,031 billion to $8,907

TABLE 1.2 FDI Indicators and Multinational Company Statistics (billions of dollars and percentages)

FDI Data	Value ($ billions) 1980	1990	2000	2004	As % of Gross Domestic Product 1980	1990	2000	2004
Inflows	$ 55	$ 209	$1,393	$ 648				
Outflows	54	242	1,201	730				
Inward stock	699	1,954	6,147	8,895	6.1%	8.9%	20.0%	21.7%
Outward stock	564	1,763	5,992	9,732	5.4	8.4	19.6	24.0

	1990–1995 (annual average)	1996	1997	1998	1999	2000	2001	2002	2003	2004
Cross-border M&As	$118	$227	$305	$532	$766	$1,144	$594	$370	$297	$381

Foreign Affiliate Data	Value at Current Prices ($ billions) 1996	1997	2000	2002	1996–2000	2001	2002
Sales	$ 9,372	$ 9,728	$ 15,680	$ 17,685	10.9%	9.2%	7.4%
Total assets	11,246	12,211	21,102	26,543	19.2	4.5	8.3
Exports	1,841	2,035	3,572	2,613	9.6	−3.3	4.2
Employment (000s)	30,941	31,630	45,587	53,094	14.2	−1.5	5.7

Source: "Table 1. Selected Indicators of FDI and International Production, 1982–2000," *World Investment Report 2001*, UNCTAD; "Country Fact Sheet: United States," *World Investment Report 2005*, UNCTAD; "Foreign Direct Investment Flows," UNCTAD GlobStat database, http://globstat.unctad.org/html/index.html (July 4, 2004); and "Foreign Affiliates in Host Economies," UNCTAD GlobStat database, http://globstat.unctad.org/html/index.html (July 4, 2004).

billion. The level of service exports worldwide increased more than 5.5 times during the same period, growing from $385 billion to $2,125 billion.[14] Trends regarding FDI and exporting are discussed in Chapter 2, and theories for exporting and FDI are discussed in Chapter 3.

Number of International Companies We also have estimates of the number of global and multidomestic firms in the world. UNCTAD, the United Nations agency in charge of all matters relating to FDI and international corporations, estimated that there were 70,000 companies in 2004, with a total of 690,000 foreign affiliates, that accounted for approximately 25 percent of global output. They accounted for two-thirds of world trade. Foreign affiliates' sales (almost $19 trillion in 2004) were far in excess of global trade ($11 trillion).[15] In 1995, UNCTAD estimated that there were only 45,000 parent companies with 280,000 foreign affiliates, with total sales of US$7 trillion.[16]

As a result of this expansion, the subsidiaries of foreign companies have become increasingly important in the industrial and economic life of many nations, developed and developing. This situation is in sharp contrast to the one that existed when the dominant economic interests were in the hands of local citizens. The expanding importance of foreign-owned firms in local economies came to be viewed by a number of governments as a threat to their autonomy. However, there has been a marked liberalization of government policies and attitudes toward foreign investment in both developed and developing nations since the early 1980s. Leaders of these governments know that local firms must obtain modern commercial technology in the form of direct investment, purchase of capital goods, and the right to use the international company's expertise if they are to be competitive in world markets.*

Despite this change in attitude, there are still critics of large global firms who cite such statistics as the following to "prove" that host governments are powerless before them:

1. In 2004, only 19 nations had gross national incomes (GNIs) greater than the total annual sales of Wal-Mart, the company with the world's greatest sales.
2. Also in 2004, the total amount of money spent in Wal-Marts worldwide was greater than the combined GNIs of the 112 smallest economies of the 208 listed in the World Bank's World Development Indicators database.

As Table 1.3 indicates, these statements are true. In fact, when nations and industrial firms are ranked by GNI and total sales, respectively, 50 of the first 100 on the list are industrial firms. However, a nation's GNI and a company's sales are not directly comparable because GNI is a measure of value added, not sales. If a nation's total sales were computed, the result would be far greater than its GNI because there would be triple and quadruple counting. For example, suppose a steel manufacturer sells steel wire to a tire company, which uses it to build tires. Then the tire company sells the tires to automakers, which mount them on their automobiles, which they in turn sell to the public. Sales of the wire would be counted three times. However, in calculating GNI, governments merely sum the values added in each transaction, which is the difference between the sales of the company and the costs of materials bought outside the company. If company sales were measured by value added, Wal-Mart's sales of $288 billion would have been $65 billion. While Wal-Mart's sales are twice as large as Iceland's GNI, when the economy is measured by the value added, Iceland's economy is more than twice the size of Wal-Mart.

A firm's size may at times give it bargaining power, as in the case of a government that wants a firm to set up a subsidiary because of the employment it will offer and the purchases it will make from other firms in that country. Yet, regardless of the parent firm's size, each subsidiary is a local company that must comply with the laws in the country where it is located. If it does not, it can be subject to legal action or even government seizure.

THE GLOBALIZATION DEBATE AND YOU

Recently the merits of globalization have been the subject of many heated debates. When the World Trade Organization met in Seattle in 1999, there were extensive public protests about globalization and the liberalization of international trade. Further antiglobalization protests occurred when the WTO met in Davos, Switzerland, in early 2001, and at other gatherings of international organizations and leaders since that time. The debate is, in many respects, waged by diametrically opposed groups with extremely different views regarding the consequences of globalization. Sifting through the propaganda and hyperbole spouted by both sides is a challenge. However, it is important to recognize the various perspectives on globalization, as their arguments can generate appeal (or rejection) both intellectually and emotionally. The contributions of free trade and globalization to dramatic reductions in worldwide poverty are contrasted with anecdotal stories of people losing their livelihoods under the growing power of multinationals. Likewise, increases in service sector employment are contrasted against losses in high-paying manufacturing jobs.

Protesters carry a banner linking free trade practices and sea turtle survival during the WTO meeting in Seattle in 1999. All seven species of sea turtles are currently endangered.

We believe that a book such as this should acquaint you with the arguments from both sides, because how this debate is resolved will have a great effect on the international business activities you will one day manage, deal with, or be affected by. The evolution of the debate will

*Granting the right to use a firm's expertise for a fee is called *licensing*. See Chapter 16 for more details about licensing and other forms of international market entry.

TABLE 1.3 Ranking of International Companies and Nations according to GNI (Atlas Method) or Total Sales

Ranking	Nation or Company	GNI or Total Sales for 2004 ($ billion)	Ranking	Nation or Company	GNI or Total Sales for 2004 ($ billion)
1	United States	$12,168	51	Malaysia	113
2	Japan	4,734	52	Volkswagen (G)	111
3	Germany	2,532	53	Citigroup (U.S.)	108
4	United Kingdom	2,013	54	ING Group (N)	106
5	China	1,938	55	Venezuela, RB	105
6	France	1,888	56	Singapore	105
7	Italy	1,513	57	United Arab Emirates	103
8	Spain	919	58	Nippon Telegraph & Telephone (J)	101
9	Canada	905	59	American Int'l Group (U.S.)	98
10	Mexico	705	60	IBM (U.S.)	96
11	India	673	61	Philippines	95
12	Korea, Rep.	673	62	Czech Republic	93
13	Brazil	552	63	Siemens (G)	91
14	Australia	544	64	Colombia	91
15	Netherlands	523	65	Pakistan	91
16	Russian Federation	489	66	Egypt, Arab Rep.	91
17	Switzerland	366	67	Carrefour (F)	90
18	Belgium	326	68	Hungary	85
19	Sweden	322	69	Chile	84
20	Wal-Mart Stores (U.S.)	288	70	Hitachi (J)	84
21	BP (U.K.)	285	71	Assicurazioni Generali (It)	83
22	Exxon Mobil (U.S.)	271	72	New Zealand	81
23	Turkey	269	73	Matsushita Electric Industrial (J)	81
24	Royal Dutch Shell (U.K.-N)	269	74	McKesson (U.S.)	81
25	Austria	264	75	Honda (J)	80
26	Indonesia	248	76	Hewlett-Packard (U.S.)	80
27	Saudi Arabia	243	77	Nissan (J)	80
28	Norway	238	78	Fortis (B-N)	76
29	Poland	233	79	Sinopec (PRC)	75
30	Denmark	220	80	Berkshire Hathaway (U.S.)	74
31	General Motors (U.S.)	194	81	ENI (It)	74
32	Greece	185	82	Algeria	73
33	Hong Kong, China	184	83	Home Depot (U.S.)	73
34	DaimlerChrysler (G)	177	84	Aviva (U.K.)	73
35	Toyota (J)	173	85	HSBC Holdings (U.K.)	73
36	Finland	172	86	Deutsche Telekom (G)	72
37	Ford (U.S.)	172	87	Verizon Communications (U.S.)	72
38	South Africa	165	88	Samsung Electronics (K)	72
39	Thailand	158	89	State Grid (PRC)	71
40	Iran, Islamic Rep.	155	90	Peugeot (F)	71
41	General Electric (U.S.)	153	91	Metro (G)	70
42	Total (F)	153	92	Nestlé (S)	70
43	Portugal	149	93	U.S. Postal Service (U.S.)	69
44	Chevron Texaco (U.S.)	148	94	BNP Paribas (F)	69
45	Ireland	140	95	China National Petroleum (PRC)	68
46	Argentina	137	96	Sony (J)	67
47	ConocoPhillips (U.S.)	122	97	Cardinal Health (U.S.)	65
48	AXA (F)	122	98	Peru	65
49	Allianz (G)	119	99	Royal Ahold (N)	65
50	Israel	118	100	Altria Group (U.S.)	64

Note: Belgium (B), China (PRC), France (F), Germany (G), Italy (It), Netherlands (N), Switzerland (S), United Kingdom (U.K.), and United States (U.S.).

Source: *World Development Indicators* database, http://devdata.worldbank.org/data-query/ (July 4, 2006); and Fortune 2005 Global 500, http://money.cnn.com/magazines/fortune/global500/2005 (July 4, 2006).

affect all our lives. The nearby Worldview box, "The Debate on Globalization of Trade and Investment," briefly summarizes some of the arguments for and against the globalization process and its outcomes. Many of the issues associated with globalization are highly complex, and it is not possible to deal with them fully within an introductory text such as this. As was shown in Table 1.1, there is no single measure of globalization or of integration within the world economy. Each element of global integration can have different effects. However, the material presented in the various chapters of this book can help you, the reader, become more informed about globalization and the relative merits of various positions being taken regarding this important subject.

If the debate about globalization has been rancorous and divisive, the outcome of this debate is likely to change substantially the various aspects of the economic environment—both within and between various countries—and it will strongly affect your future as a participant in international business or a teacher of it. As you read the Worldview synopsis of the issues and arguments of supporters and opponents of globalization, and throughout your reading of this book, we hope that you will consider carefully the goals and process of globalization. Through informed education, perhaps the public debate can move beyond a simplistic argument for or against globalization and toward how best to strengthen the working of the global economy and thereby contribute to the enhancement of the welfare of the world and its inhabitants.

Why Is International Business Different?

International business differs from domestic business in that a firm operating across borders must deal with the forces of three kinds of environments—domestic, foreign, and international. In contrast, a firm whose business activities are carried out within the borders of one country needs to be concerned essentially with only the domestic environment. However, no domestic firm is entirely free from foreign or international environmental forces because the possibility of having to face competition from foreign imports or from foreign competitors that set up operations in its own market is always present. Let us first examine these forces and then see how they operate in the three environments.

FORCES IN THE ENVIRONMENTS

environment
All the forces surrounding and influencing the life and development of the firm

uncontrollable forces
External forces over which management has no direct control, although it can exert an influence

The term **environment** as used here means all the forces influencing the life and development of the firm. The forces themselves can be classified as *external* or *internal*. The external forces are commonly called **uncontrollable forces.** Management has no direct control over them, although it can exert influences such as lobbying for a change in a law and heavily promoting a new product that requires a change in a cultural attitude. External forces consist of the following:

1. *Competitive:* kinds and numbers of competitors, their locations, and their activities.
2. *Distributive:* national and international agencies available for distributing goods and services.
3. *Economic:* variables (such as GNP, unit labor cost, and personal consumption expenditure) that influence a firm's ability to do business.
4. *Socioeconomic:* characteristics and distribution of the human population.
5. *Financial:* variables such as interest rates, inflation rates, and taxation.
6. *Legal:* the many foreign and domestic laws governing how international firms must operate.
7. *Physical:* elements of nature such as topography, climate, and natural resources.
8. *Political:* elements of nations' political climates such as nationalism, forms of government, and international organizations.
9. *Sociocultural:* elements of culture (such as attitudes, beliefs, and opinions) important to international managers.

The Debate on Globalization of Trade and Investment

In recent years, the rapid pace of globalization of trade and investment has been accompanied by corresponding debate regarding globalization's implications. This Worldview provides a brief overview of some of the issues and arguments associated with the globalization debate; we hope it will whet your appetite for examining many of these issues in more depth in the chapters that follow.

Arguments supporting globalization

> *Expanding trade by collectively reducing barriers is the most powerful tool that countries, working together, can deploy to reduce poverty and raise living standards.*
>
> —Horst Kohler and James Wolfensohn

That free trade is the best strategy for advancing the world's economic development is one of the few propositions on which almost all economists agree, not only because it is theoretically compelling but also because it has been demonstrated in practice. On a wide range of measures—poverty, education, health, and life expectancy—more people have become better off at a faster pace in the past 60 years than at any other time in history. Evidence is strong regarding the dramatic decline in both the proportion and the absolute number of destitute people. The latest World Development Indicators from the World Bank show that the number of people in extreme poverty fell from 1.5 billion in 1981 to 1.1 billion in 2001. Measured as a proportion of the population in developing countries, the decline was from 39.5 percent in 1981 to 21.3 percent in 2001. Between 1981 and 1999, the proportion of people in the East Asia and Pacific region living on less than $1 a day fell from 56 to 16 percent. In China, it plummeted from 61 to 17 percent. In South Asia, it fell from 52 to 31 percent. The proportion of people living in nations with daily food supplies under 2,200 calories per capita has declined from 56 percent in the mid-1960s to less than 10 percent. Life expectancy in the developing world has nearly doubled since World War II, and infant mortality has decreased in all of the developing regions of the world. The proportion of children in the labor force fell from 24 percent in 1960 to 10 percent in 2000. Global literacy grew from 52 percent in 1950 to 81 percent in 1999, and on average the more globally integrated countries spend more on public education, especially in developing countries. Citizens from more globally integrated countries have greater levels of civil liberties and political rights. Within a generation's time, there has been an enormous improvement in the human condition, and every one of the development success stories was based on export-led growth facilitated by the liberalization of trade.

Of course, countries can reject globalization, and some have, including Myanmar, the Democratic Republic of Congo, Sierra Leone, Rwanda, Madagascar, Guinea-Bissau, Algeria, the Republic of Congo, Burundi, Albania, Syria, and Ukraine. They are among the most impoverished countries in the world. As an article in the *Financial Times* puts it, "They are victims of their refusal to globalize."

Expanded trade is also linked with the creation of more and better jobs. Over the past two decades—a period of immense technological change and growth in trade—around 40 million more jobs were created than were destroyed in the United States. It is true that when a country opens to trade, just as when new technologies are developed, some of its sectors may not be competitive. Companies may go out of business, and some jobs will be lost. But trade creates new jobs, and these tend to be better than the old ones. The key is not to block change but, instead, to manage the costs of trade adjustment and to support the transition of workers to more competitive employment.

Concerns with globalization

> *We're not against trade; we want trade rules that allow Americans to compete fairly in the marketplace. The record is clear: Current trade policy isn't working. It has led to tremendous job loss and human rights abuses. The [proposed] FTAA [Free Trade Area of the Americas] will leave plant closings, trashed environments and sweatshops in its wake.*
>
> —Richard Trumka, secretary-treasurer, AFL-CIO

Broadly publicized demonstrations—such as the so-called Battle of Seattle that wrecked the Seattle World Trade Organization trade talks in 1999, as well as subsequent disruptions at venues such as the International Monetary Fund/World Bank meetings in Washington, D.C., and Prague—brought widespread public attention to the antiglobalization movement. Those expressing concern with globalization have come from a range of sectors of society, and they express a correspondingly diverse set of concerns. Some fundamentally oppose the very process and outcomes of globalization on ideological grounds, while others may merely be concerned about finding ways to better manage globalization processes and the resulting outcomes. Some of the opponents' concerns may be viewed as naïve or clearly inconsistent with the preponderance of evidence. Other challenges to globalization may have theoretic merit or other supporting evidence and certainly may be worthy of discussion and the fostering of substantive change.

Although perspectives on the globalization debate may in many respects depend on one's values and ideology, thus further compounding efforts to reach a mutually agreed-on resolution, let us first ask this question: What are some of the primary concerns of the opponents of globalization? While many of the antiglobalizers concede that globalization "increases the size of the pie," they also claim that it has been accompanied by a broad array of injurious social implications. Among their concerns, let us briefly examine three primary ones here: (1) that globalization has produced uneven results across nations and people, (2) that globalization has had deleterious effects on labor and labor standards, and (3) that globalization has contributed to a decline in environmental and health conditions.

(continued)

1. *Globalization has produced uneven results across nations and people.* In stark contrast to the positive picture presented by supporters of globalization, opponents describe the painful impact of foreign investment and trade liberalization on the people of the world. Far from everyone has been a winner, they say. The promise of export-led growth has failed to materialize in several places. For example, Latin America has failed to replicate Asia's success despite efforts to liberalize, privatize, and deregulate its economies, with results ranging from disappointment in Mexico to catastrophe in Argentina. Similarly, efforts in sub-Saharan Africa have failed to yield benefits, and the share of the population living in extreme poverty there rose from 42 to 47 percent between 1981 and 2001. Open world markets, it seems, may offer the possibility of economic development—but the recipe is neither easy in its implementation nor universal in its outcomes.

   Many opponents of globalization have claimed that there is a huge gap between the world's rich and poor and that globalization has caused that gap to increase. That there is a gap between rich and poor is unquestionable, but the evidence is perhaps not so clear regarding the charge that globalization has increased this inequality. Although Martin Wolf 's analysis shows that income inequality has not risen in most developing countries that have integrated with the world economy, it does show that inequality has increased in some places, most notably in China. Inequality has risen in some high-income countries as well, but he attributes that more to the nature of technological change than to globalization. When income data are adjusted to reflect relative purchasing power, the inequality in income between poor and rich nations diminishes. Wolf also notes that while globalization of trade and investment is an enabler to improved income and living standards, the results may vary if obstacles exist such as poor governance or excessive borrowing.

2. *Globalization has had deleterious effects on labor and labor standards.* The issue of the impact of globalization on labor standards has become an oft-mentioned concern of workers in the United States and other nations. With trade liberalization through the World Trade Organization and increased mobility of capital, measures to keep a country's industries within its borders have been reduced and companies have an easier time divesting their interests in one country and moving to another. Workers in developed countries frequently voice concerns that their jobs will migrate to developing nations where there are lower standards, and thus lower costs, leading to the infamous "race to the bottom," where developed nations with more rigorous labor standards become disadvantaged. Indeed, the Labor Secretariat for the North American Free Trade Agreement commissioned a report that found over half of firms surveyed used threats to close U.S. operations as a tool to fight union-organizing efforts. Since NAFTA's inception and the subsequent reduction in trade and investment barriers, these threats have become more plausible. As reported by Alan Tonelson, "In fact, more than 10 percent of employers studied . . . 'directly threatened to move to Mexico,' and 15 percent of firms, when forced to bargain with a union, actually closed part or all of a factory—triple the rate found in the late 1980s, before NAFTA."

   The concern can run both ways, however. Although labor standards in developing countries are usually lower than in industrialized countries, they are rising and evidence shows that multinationals investing in host nations pay higher wages, create new jobs at a faster rate, and spend more on R&D than do local firms. Developing countries may also view the imposition of more demanding labor standards within their borders as a barrier to free trade. They may feel that lower-cost labor constitutes their competitive advantage and that if they are forced to implement more stringent labor standards, then companies may no longer have an incentive to set up operations in their countries, damaging their prospects for improved economic development. As the authors of *Globaphobia* ask, "Is it humane for the United States to refuse to trade with these countries because their labor standards are not as high as we would prefer? The consequence of taking this position is that many third-world

10. *Labor:* composition, skills, and attitudes of labor.
11. *Technological:* the technical skills and equipment that affect how resources are converted to products.

controllable forces
Internal forces that management administers to adapt to changes in the uncontrollable forces

The elements over which management does have some control are the internal forces, such as the factors of production (capital, raw materials, and people) and the activities of the organization (personnel, finance, production, and marketing). These are the **controllable forces** management must administer in order to adapt to changes in the uncontrollable environmental variables. Look at how one change in the political forces—the expansion of the European Union in 2004—has affected all the controllable forces of firms worldwide that do business in or with the 25 member-nations. Suddenly these firms had to examine their business practices and change those affected by this new expansion. For example, some European concerns and foreign subsidiaries in the EU have relocated parts of their operations to other nations in the Union in order to exploit the lower wages there. Some American and Asian workers will have no jobs at all, or must take jobs that pay even lower wages and have even worse working conditions than those currently available in the export-oriented sector." A November 2003 study by the Carnegie Endowment for International Peace found that Mexico's agricultural sector, which provides most of the country's employment, had lost 1.3 million jobs since NAFTA was implemented in 1994. In addition, far from diminishing under NAFTA, the flow of impoverished Mexicans into the United States has risen dramatically, the study says.

3. *Globalization has contributed to a decline in environmental and health conditions.* Regarding concerns of antiglobalization forces that globalization contributes to declining environmental standards, former president Zedillo of Mexico stated, "Economic integration tends to favor, not worsen the environment. Since trade favors economic growth, it brings about at least part of the necessary means to preserve the environment. The better off people are, the more they demand a clean environment. Furthermore, it is not uncommon that employment opportunities in export activities encourage people to give up highly polluting marginal occupations." Yet a difficulty caused by the North American Free Trade Agreement and the maquiladora program that began before NAFTA has been the substantial increases in ground, water, and air pollution along the Mexico-U.S. border. Damage to the environment has been caused by the many new production facilities and the movement of thousands of Mexicans to that area to work in them. In addition, some health and environmental issues extend beyond the scope of trade agreements. Some of NAFTA's rules on trade in services may cause governments to weaken environmental standards for sometimes hazardous industries like logging, trucking, water supply, and real estate development. For example, to comply with NAFTA's rules on trade in services, the Bush administration recently waived U.S. clean air standards in order to allow trucks based in Mexico to haul freight on U.S. highways. Globalization opponents argue that this could increase air pollution and associated health concerns in border states, as the aging Mexican truck fleet pollutes more than similar U.S. trucks and these vehicles do not use the cleaner fuels required in the United States. Protesters have also claimed that, under liberalized rules regarding the globalization of trade and investment, businesses have an incentive to move their highly polluting activities to nations that have the least rigorous environmental regulations or a lower risk of liability associated with operations that can create environmental or health-related problems. On the other hand, the economic growth fostered by globalization can help generate and distribute additional resources for protecting the environment, and improved trade and investment can enhance the exchange of more environmentally friendly technologies and best practices, particularly within developing nations.

Source: Gary Burtless, Robert Z. Lawrence, Robert E. Litan, and Robert J. Shapiro, *Globaphobia: Confronting Fears about Open Trade* (Washington, DC: Brookings Institution Press, 1998); Alan Tonelson, *The Race to the Bottom: Why a Worldwide Worker Surplus and Uncontrolled Free Trade Are Sinking American Living Standards* (Boulder, CO: Westview Press, 2002); "Globalization," http://en.wikipedia.org/wiki/Globalization (July 5, 2006); "United States Rises, Russia Plummets in Annual Ranking of World's Most Globalized Nations," www.atkearney.com/main.taf?p=1,5,1,157 (July 5, 2006); "ICC Brief on Globalization," www.iccwbo.org/home/commercial_practice/case_for_the_global_economy/globalization%20brief/globalization_brief.asp (July 5, 2006); Daniel Seligman, "On NAFTA's Tenth Anniversary, Americans Demand Safe, Clean and Fair Trade," Sierra Club, San Francisco, www.sierraclub.org/pressroom/releases/pr2003-12-23a.asp (March 6, 2004); John-Thor Dahlburg, "Protesters Tell a Different Tale of Free Trade," *Los Angeles Times*, November 20, 2003, p. A3; Paul Krugman, "The Good News," *New York Times*, November 28, 2003, p. A31; Horst Kohler and James Wolfensohn, "We Can Trade Up to a Better World," *Financial Times*, December 12, 2003, p. 19; Martin Wolf, *Why Globalization Works* (New Haven, CT: Yale University Press, 2004); *Human Development Report 2003*, United Nations Development Program, New York, http://hdr.undp.org/reports/global/2003/pdf/hdr03_HDI.pdf (July 15, 2004); *World Development Indicators 2004*, World Bank, http://www.worldbank.org/data/countrydata/countrydata.html (July 15, 2004); and John Audley, Sandra Polaski, Demetrios G. Papademetriou, and Scott Vaughan, *NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere*, (Washington, DC: Carnegie Endowment for International Peace, 2003).

companies have set up production in one of the member-countries to supply this giant free trade area. By doing this, they avoid paying import duties on products coming from their home countries.

THE DOMESTIC ENVIRONMENT

The **domestic environment** is all the uncontrollable forces originating in the home country that influence the life and development of the firm. Obviously, these are the forces with which managers are most familiar. Being domestic forces does not preclude their affecting foreign operations, however. For example, if the home country is suffering from a shortage of foreign currency, the government may place restrictions on overseas investment to reduce its outflow. As a result, managements of multinationals find that they cannot expand overseas facilities as they would like to do. In another instance from real life, a labor union striking the home-based plants learned that management was supplying parts from its foreign

domestic environment
All the uncontrollable forces originating in the home country that surround and influence the firm's life and development

subsidiaries. The strikers contacted the foreign unions, which pledged not to work overtime to supply what the struck plants could not. The impact of this domestic environmental force was felt overseas as well as at home.

THE FOREIGN ENVIRONMENT

foreign environment
All the uncontrollable forces originating outside the home country that surround and influence the firm

The forces in the **foreign environment** are the same as those in the domestic environment except that they occur in foreign nations.* However, they operate differently for several reasons, including those below.

Forces Have Different Values

Even though the kinds of forces in the two environments are identical, their values often differ widely, and at times they are completely opposed to each other. A classic example of diametrically opposed political-force values and the bewilderment they create for multinational managers was the case of Dresser Industries and the gas pipeline in the former Soviet Union. When President Reagan extended the American embargo against shipments of equipment for the pipeline to include foreign companies manufacturing equipment under license from U.S. firms, the Dresser home office instructed its French subsidiary to stop work on an order for compressors. Meanwhile, the French government ordered Dresser-France to defy the embargo and begin scheduled deliveries under penalty of both civil and criminal sanctions. As a Dresser's vice president put it, "The order put Dresser between a rock and a hard place."

A similar case occurred when, because of the American export embargo on shipments to Cuba, that country could not buy buses from the U.S. manufacturer with which it had done business for years. To circumvent the embargo, the government ordered the buses from the firm's Argentine subsidiary. When word came from the firm's American headquarters that the order should not be filled because of the American embargo, the Argentine government ordered the Argentine subsidiary to fill the order, saying that Argentine companies, of which the subsidiary was one, did not answer to the demands of a foreign government. The Argentine management of the subsidiary was in a quandary. Finally, headquarters relented and permitted its Argentine subsidiary to fill the order.

Forces Can Be Difficult to Assess

Another problem with foreign forces is that they are frequently difficult to assess. This is especially true of legal and political forces. A highly nationalistic law may be passed to appease a section of the local population. To all outward appearances, the government may appear to be against foreign investment; yet pragmatic leaders may actually encourage it. A good example is Mexico, which until 1988 had a law prohibiting foreigners from owning a majority interest in a Mexican company. However, a clause permitted exceptions "if the investment contributes to the welfare of the nation." IBM, Eaton, and others were successful in obtaining permission to establish a wholly owned subsidiary under this clause.

The Forces Are Interrelated

In the chapters that follow, it will be evident that the forces are often interrelated. This in itself is not a novelty, because the same situation confronts a domestic manager. On the foreign scene, however, the kinds of interaction that occur and the outcomes may differ. For instance, the combination of high-cost capital and an abundance of unskilled labor in many developing countries may lead to the use of a lower level of technology than would be employed in the more industrialized nations. In other words, given a choice between installing costly, specialized machinery needing few workers and installing less expensive, general-purpose machinery requiring a larger labor force,

**Foreign* has multiple definitions according to the *American Heritage Dictionary,* including (1) originating from the outside—external, (2) originating from a country other than one's own, and (3) conducted or involved with other nations or governments. *Extrinsic* is a synonym. Note that we are not using another possible definition—unfamiliar or strange. Some writers have this last definition in mind when they state that overseas markets in which the firm does business are not foreign because their managers know them well. However, according to any of the first three definitions, the degree of familiarity has no bearing.

management will frequently choose the latter when faced with high interest rates and a large pool of available workers. Another example is the interaction between physical and sociocultural forces. Barriers to the free movement of a nation's people, such as mountain ranges and deserts, help maintain pockets of distinct cultures within a country, and this has an effect on decision making.

THE INTERNATIONAL ENVIRONMENT

The **international environment** consists of the interactions (1) between the domestic environmental forces and the foreign environmental forces and (2) between the foreign environmental forces of two countries when an affiliate in one country does business with customers in another. This agrees with the definition of international business: business that involves the crossing of national borders.

international environment
Interaction between domestic and foreign environmental forces or between sets of foreign environmental forces

For example, personnel at the headquarters of a multidomestic or global company work in the international environment if they are involved in any way with another nation, whereas those in a foreign subsidiary do not unless they too are engaged in international business through exporting or the management of other affiliates. In other words, a sales manager of Nokia's China operations does not work in the international environment if he or she sells cellular phones only in China. If Nokia's China operations export cell phones to Thailand, then the sales manager is affected by forces of both the domestic environment of China and the foreign environment of Thailand and therefore is working in the international environment. International organizations whose actions affect the international environment are also properly part of it. These organizations include (1) worldwide bodies (e.g., World Bank), (2) regional economic groupings of nations (e.g., North American Free Trade Agreement, European Union), and (3) organizations bound by industry agreements (e.g., Organization of Petroleum Exporting Countries).

Decision Making Is More Complex

Those who work in the international environment find that decision making is more complex than it is in a purely domestic environment. Consider managers in a home office who must make decisions affecting subsidiaries in just 10 different countries (many internationals are in 20 or more countries). They not only must take into account the domestic forces but also must evaluate the influence of 10 foreign national environments. Instead of having to consider the effects of a single set of 10 forces, as do their domestic counterparts, they have to contend with 10 sets of 10 forces, *both individually and collectively,* because there may be some interaction.

For example, if management agrees to labor's demands at one foreign subsidiary, chances are it will have to offer a similar settlement at another subsidiary because of the tendency of unions to exchange information across borders. Furthermore, as we shall observe throughout this text, not only are there many sets of forces, but there are also extreme differences among them.

Another common cause of the added complexity of foreign environments is managers' unfamiliarity with other cultures. To make matters worse, some managers will ascribe to others their own preferences and reactions. Thus, the foreign production manager, facing a backlog of orders, may offer the workers extra pay for overtime. When they fail to show up, the manager is perplexed: "Back home they always want to earn more money." This manager has failed to understand that the workers prefer time off to more money. This unconscious reference to the manager's own cultural values, called the **self-reference criterion**, is probably the biggest cause of international business blunders. Successful managers are careful to examine a problem in terms of the local cultural traits as well as their own.

self-reference criterion
Unconscious reference to one's own cultural values when judging behaviors of others in a new and different environment

International Business Model

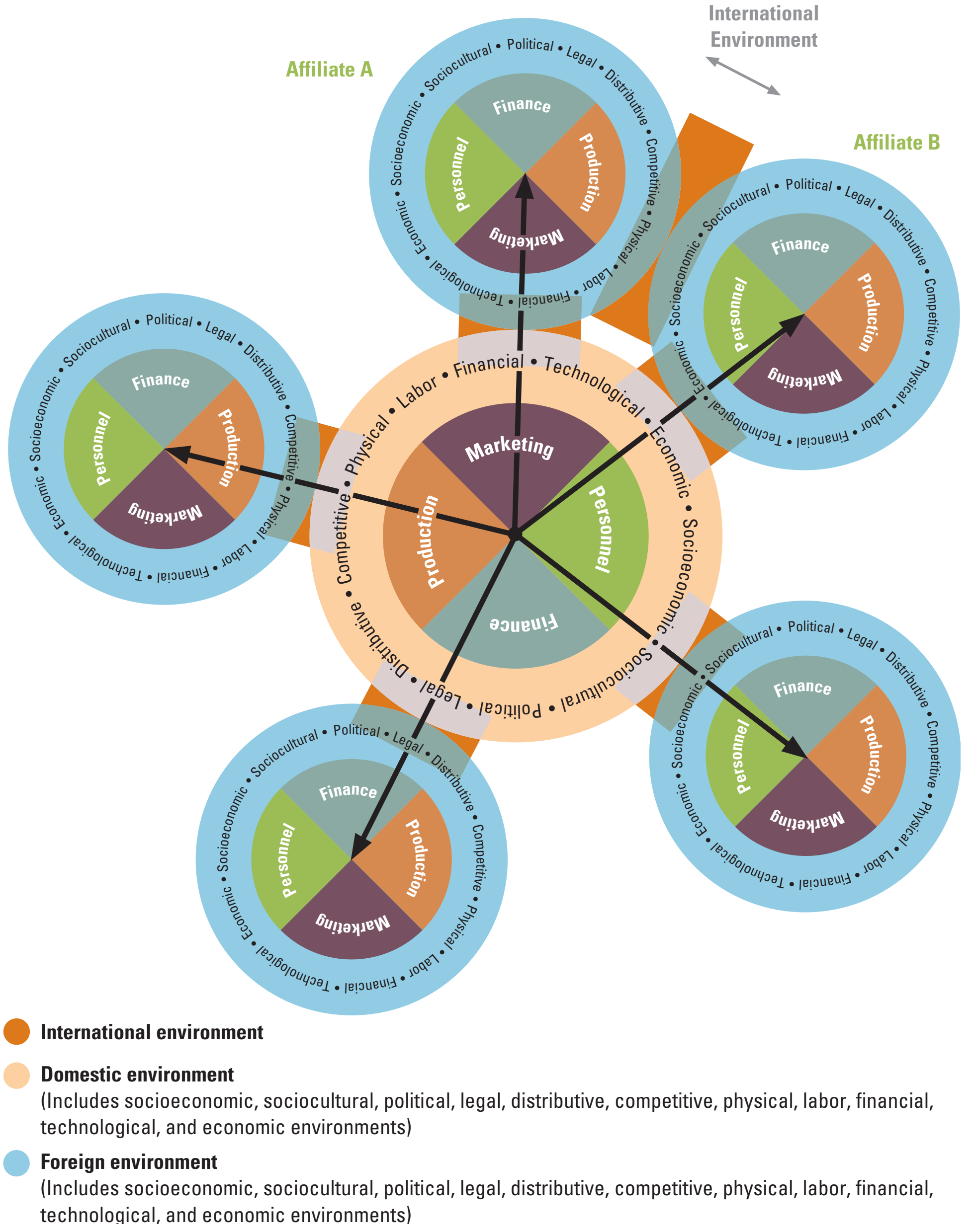
The relationships of the forces in the three environments we have been discussing form the basis of our international business environments model, shown in Figure 1.1. The external or uncontrollable forces in both the domestic and the foreign environments surround the internal forces controlled by management. The domestic environment of the international firm's home country is surrounded by as many sets of foreign environments as there are countries in which the company does business. Solid lines connecting the internal forces at the home office to the internal forces in the foreign affiliates indicate the lines of control. The beige areas indicate the international environment in which personnel in the headquarters of the international firm work. If, for example, the affiliate in foreign environment A exports to or manages the affiliate in foreign environment B, then its personnel are also working in the international environment, as shown by the beige section.

Organization of This Book

We shall be using the international business environments model throughout the book. After describing the nature of international business in Section One, we examine the international institutions and the international monetary system in Section Two. In Section Three, we analyze the uncontrollable forces that make up the foreign and domestic environments and

FIGURE 1.1

International Business Environments



illustrate their effect on management functions. Finally, we reverse the procedure in Section Four and deal with the management functions, demonstrating how they are influenced by the uncontrollable forces.

A solid understanding of the business concepts and techniques employed in the United States and other advanced industrial nations is a requisite for success in international business. However, because transactions take place across national borders, three environments—domestic, foreign, and international—may be involved instead of just one. Thus, in international business, the international manager has three choices in deciding what to do with a concept or a technique employed in domestic operations: (1) transfer it intact, (2) adapt it to local conditions, or (3) not use it overseas. International managers who have discovered that there are differences in the environmental forces are better prepared to decide which option to follow. To be sure, no one can be an expert on all these forces for all nations, but just knowing that differences may exist will cause people to "work with their antennas extended." In other words, when they enter international business, they will know they must look out for important variations in many of the forces that they take as given in the domestic environment. It is to the study of the three environments that this text is directed.

Summary

Appreciate the dramatic internationalization of markets.

Global competition is mounting. The huge increase in import penetration, plus the massive amounts of overseas investment, means that firms of all sizes face competitors from everywhere in the world. This increasing internationalization of business is requiring managers to have a global business perspective gained through experience, education, or both.

Understand the various names given to firms that have substantial operations in more than one country.

The following definitions are used in this text: A *global company* is an organization that attempts to standardize operations worldwide in all functional areas. A *multidomestic company,* by contrast, is an organization with multicountry affiliates, each of which formulates its own business strategy based on perceived market differences. The term *international company* is often used to refer to both global and multidomestic firms.

Understand the five kinds of drivers, all based on change, that are leading international firms to the globalization of their operations.

Following are the five change-based drivers that are leading international firms to globalize their operations, with an example for each kind: (1) *political*—preferential trading agreements, (2) *technological*—advances in communications technology, (3) *market*—global firms become global customers, (4) *cost*—globalization of product lines and production helps reduce costs by achieving economies of scale, and (5) *competitive*—firms are defending their home markets from foreign competitors by entering the foreign competitors' markets.

Comprehend why international business differs from domestic business.

International business differs from its domestic counterpart in that it involves three environments—domestic, foreign, and international—instead of one. Although the kinds of forces are the same in the domestic and foreign environments, their values often differ, and changes in the values of foreign forces are at times more difficult to assess. The international environment is defined as the interactions (1) between the domestic environmental forces and the foreign environmental forces and (2) between the foreign environmental forces of two countries when an affiliate in one country does business with customers in another. An international business model helps explain this relationship.

Describe the three environments—domestic, foreign, and international—in which an international company operates.

The *domestic environment* is composed of all the uncontrollable forces originating in the home country that influence the firm's life and development. The *foreign environment* is composed of all the forces originating outside the home country that influence the firm. The *international environment* is the interaction between the domestic and foreign environment forces or between sets of foreign environmental forces.

Key Words

multidomestic company (MDC) (p. 9)
global company (GC) (p. 10)
international company (IC) (p. 10)
foreign direct investment (p. 15)
exporting (p. 16)
environment (p. 20)
uncontrollable forces (p. 20)
controllable forces (p. 22)
domestic environment (p. 23)
foreign environment (p. 24)
international environment (p. 25)
self-reference criterion (p. 25)

Questions

1. What are the differences between international, global, and multidomestic companies?
2. Give examples to show how an international business manager might manipulate one of the controllable forces in answer to a change in the uncontrollable forces.
3. "A nation whose GNI is smaller than the sales volume of a global firm is in no position to enforce its wishes on the local subsidiary of that firm." True or false? Explain.
4. Discuss the forces that are leading international firms to the globalization of their sourcing, production, and marketing.
5. Business is business, and every firm has to produce and market its goods. Why, then, might managers be unable to apply the techniques and concepts they have learned in their own country to other areas of the world?
6. What do you believe makes foreign business activities more complex than purely domestic ones?
7. Discuss some possible conflicts between host governments and foreign-owned companies.
8. Why, in your opinion, do the authors regard the use of the self-reference criterion as "probably the biggest cause of international business blunders"? Can you think of an example?
9. You have decided to take a job in your hometown after graduation. Why should you study international business?
10. Although forces in the foreign environment are the same as those in the domestic environment, they operate differently. Why is this so?
11. What examples of globalization can you identify within your community? How would you classify each of these examples (e.g., international investment, international trade)?
12. Why is there opposition to globalization of trade and integration of the world's economy? Please assess the major arguments for and against such globalization efforts.

Research Task

globalEDGE.msu.edu

Use the globalEDGE site (http://globalEDGE.msu.edu/) to complete the following exercises:

1. Several classifications and rankings of multinational corporations (MNCs) are published to assess their relative size and success. One such set of rankings is the *Global 2000* published by Forbes. Which countries are represented in the top 25 of this list? You are required to analyze any industry patterns that may exist across the different countries represented in this list. Do you notice any differences in the industries represented? Is there a predominant industry that appears in the top 25 for the United States? What about the other countries represented in the top 25?
2. The WTO's *International Trade Statistics* is an annual report that provides comprehensive, comparable, and current statistics on trade in merchandise and commercial services. This report allows for an assessment of world trade flows by country and by main product or service categories. Using the most recent statistics available, identify the top five countries that lead in the export and import of merchandise, respectively.

Ownership of Companies and Brands Minicase 1.1

Which of the following companies or brands are foreign-owned? Who are the owners and which country(ies) are the owners based in?

1. 7-Eleven Stores
2. Chesebrough-Pond (Vaseline)
3. Snapple
4. Coors beer
5. 7 Up
6. Baby Ruth (candy bar)
7. Holiday Inn
8. *Fast Company* magazine
9. TriStar Pictures
10. Arco (gasoline)
11. Scott Paper (Kleenex)
12. Elizabeth Arden
13. *Woman's Day* magazine
14. Ralston Purina
15. Motel 6
16. Pinkerton (security guards)
17. Ban deodorant
18. RCA Records
19. IBM Thinkpad (laptop computers)
20. Shaeffer pens