

John J. Wild Kenneth L. Wild

International Business

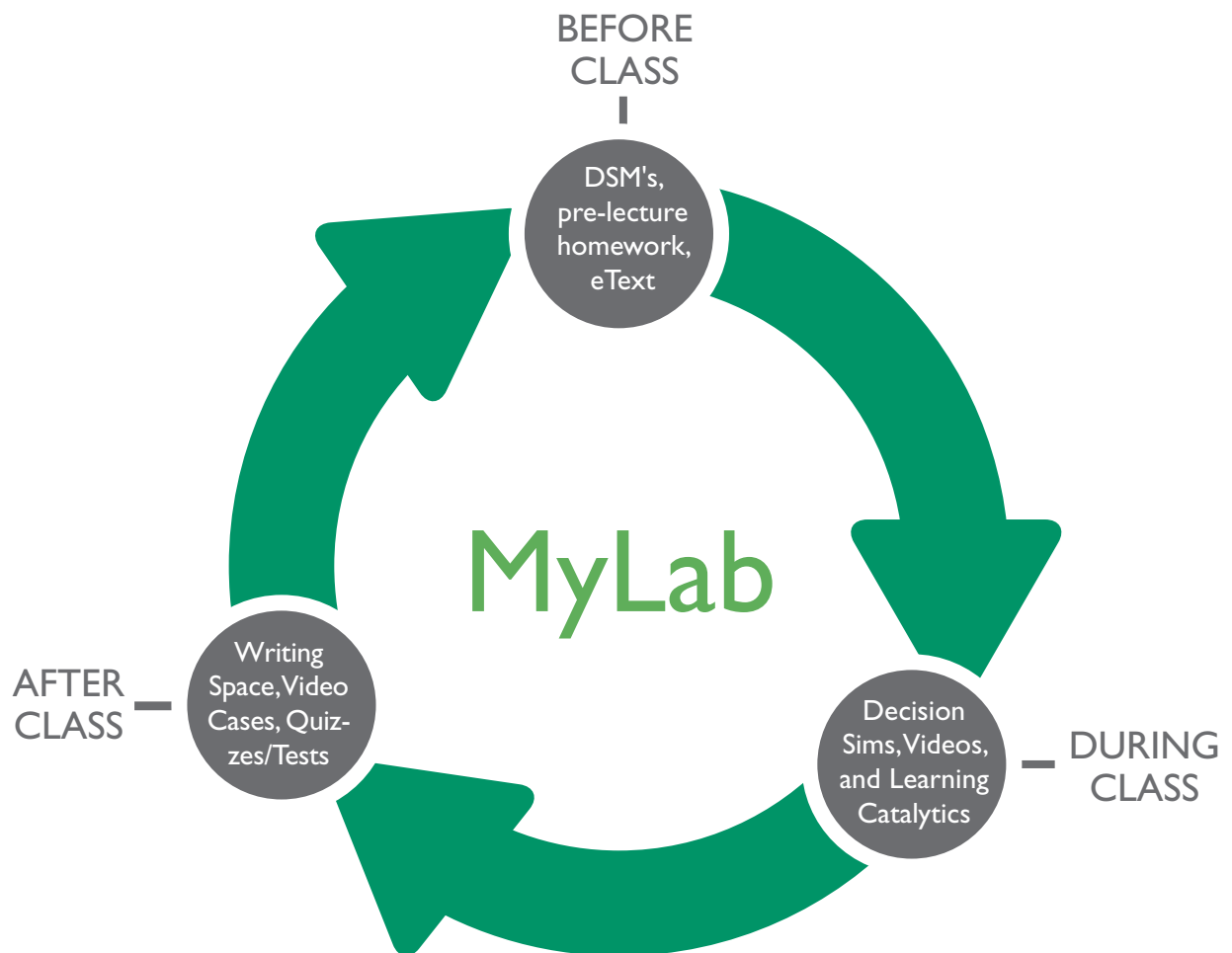
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Eighth Edition

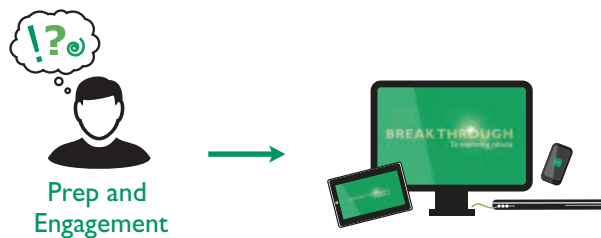


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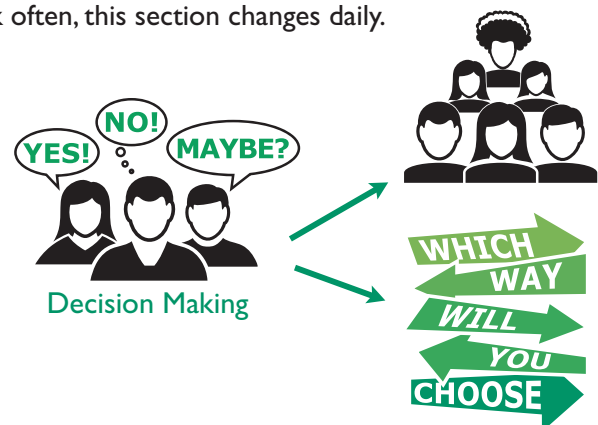


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International Business

The Challenges of Globalization

Eighth Edition

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Dear Friends and Colleagues,

As we roll out the new edition of *International Business: The Challenges of Globalization*, we thank each of you who provided suggestions to enrich this textbook. This edition reflects the advice and wisdom of many dedicated reviewers and instructors. Together, we have created the most readable, concise, and innovative international business book available today.

As teachers, we know how important it is to select the right book for your course. Instructors say that this book's clear and lively writing style helps students learn international business. This book's streamlined and clutter-free design is a competitive advantage that will never be sacrificed.

This book's cutting-edge technology package also helps students to better understand international business. MyManagementLab is an innovative set of course-management tools for delivering all or part of your course online, which makes it easy to add meaningful assessment to your course. Whether you're interested in testing your students on simple recall of concepts and theories or you'd like to gauge how well they can apply their new knowledge to real-world scenarios, MyManagementLab offers a variety of activities that are applied and personalized with immediate feedback. You and your students will find these and other components of this book's learning system fun and easy to use.

We owe the success of this book to our colleagues and our students who keep us focused on their changing educational needs. In this time of rapid global change, we must continue to instill in our students a passion for international business and to equip them with the skills and knowledge they need to compete. Please accept our heartfelt thanks and know that your input is reflected in everything we write.

John J. Wild
Kenneth L. Wild

Preface

Welcome to the eighth edition of *International Business: The Challenges of Globalization*. As in previous editions, this book resulted from extensive market surveys, chapter reviews, and correspondence with scores of instructors and students. We are delighted that an overwhelming number of instructors and students agree with our fresh approach to international business. The reception of this textbook in the United States and across the world has exceeded all expectations.

This book presents international business in a comprehensive yet concise framework. Real-world examples and engaging features bring the concepts of international business to life and make international business accessible for all students. A main goal in this edition is to deliver the most readable, current, and concise international business textbook available. And this book's paperback format ensures that its price matches a student's budget.

This book is our means of traveling on an exciting tour through the study of international business. It motivates the reader by making international business challenging yet fun. It also embraces the central role of people and their cultures in international business. Each chapter is infused with real-world discussion, while underlying theory appears in the background where it belongs. Terminology is used consistently, and theories are explained in direct and concise terms. This book's visual style is innovative yet subtle and uses photos, illustrations, and features sparingly. The result is an easy-to-read and clutter-free design.

What's New in This Edition

- Chapter 1 has been reorganized for a better flow of topics
- We added a new section in Chapter 2 titled Culture in the Global Workplace
- Chapter 2 covers the sixth and latest Hofstede dimension
- Chapters 3 and 4 have been blended and redesigned into a political economy framework
- Coverage of regional integration in chapter 8 is now presented as a debate
- MyManagementLab is now more integrated throughout the text

MyManagementLab™ Suggested Activities

We are excited that Pearson's MyManagement Lab has been fully integrated into the text. These new features are outlined below. The online assessment activities enable you to quiz your students before they come to class so that you have more time in class to focus on areas that students find most challenging.

Watch It

Recommends a video clip that can be assigned to students for outside classroom viewing or that can be watched in the classroom. The video corresponds to the chapter material and is accompanied by multiple choice questions that reinforce student comprehension.

Try It

Recommends a mini simulation that can be assigned to students as an outside classroom activity or that can be done in the classroom. As the students watch the simulation they will be asked to make choices based on the scenario presented. At the end of the simulation the student will receive immediate feedback based on the answers they gave. These simulations reinforce the chapters' concepts and the students' comprehension of those concepts.

Talk About It

These are discussion-based questions that can be assigned as an activity in the classroom.

Assisted-Graded Writing Questions

These are short essay questions that students can complete as an assignment and submit to you for grading.

Chapter by Chapter Changes

- Coverage of globalization and the global business environment in Chapter 1 has been reorganized for a better flow of topics. Some material has been compressed and other topics rearranged within the chapter. Chapter 1 also demonstrates the new design for the learning objectives, whereby each objective directly aligns with each major section in the chapter and with the chapter summary.
- The role of culture in business in Chapter 2 has been improved to aid student comprehension. The chapter contains a new section titled “Culture in the Global Workplace,” which covers how people in different cultures view time, work, cultural change, and material culture. We listened to your feedback and replaced the complex Hofstede figures with a table of country scores for each Hofstede dimension. We also now include coverage of the sixth and latest Hofstede dimension—indulgence versus restraint.
- The most significant change in topical coverage is a reworking of the previous Chapters 3 and 4. Chapter 3 now covers political, legal, and economic systems as integrated systems of political economy by absorbing the topic of economic systems from Chapter 4. These changes reflect instructor preference for a more applied approach to teaching the material as an integrated system. Accordingly, Chapter 4 now covers the economic development of nations more directly than in previous editions and includes relevant topics that were previously in Chapter 3, including political risk and international relations.
- Coverage of regional economic integration in Chapter 8 has been streamlined in places and coverage of the trading bloc known as ALADI has been removed. Instead of presenting the pros and cons of regional integration as benefits and drawbacks, the material is now presented as a debate over the effects of regional integration. This change reflects instructor and student requests for a more dynamic presentation of this material.
- This edition of *International Business* is also more interactive than any previous edition. If assigned by the instructor, students are invited to go to the MyManagementLab Website at relevant places throughout each chapter to complete multiple-choice exercises, to watch a video and answer questions, or to perform a simulation exercise.
- All chapters contain the latest available data and reference sources as of the date of printing. For example, Table 5.1 in Chapter 5 presents the latest ranking of the world’s top merchandise and service exporters, and Table 5.2 provides updated figures on the amount of trade that flows between different world regions.
- This edition keeps pace with current events around the world. Wherever possible, we integrate recent events into chapter-opening company profiles, tables and figures, feature boxes, in-text examples, and end-of-chapter mini cases.

Hallmark Features of International Business

Culture Early and Often

Culture is a fundamental element of all international business activity. This book’s presentation of culture sensitizes students to the lives of people in other nations. Culture appears early (Chapter 2) and is integrated throughout the text using culture-rich chapter openers and lively examples of how culture affects international business. Covering culture in this way gets students interested in chapter material because it illustrates how concepts relate to the real world.

Highly Readable

A successful book for the first course in international business must be accessible to students. We describe conceptual material and specialized business activities in concrete, straightforward terms and illustrate them appropriately. For example, we introduce the concepts of absolute and comparative advantage in Chapter 5 by discussing whether a highly paid CEO should install her

own hot tub or let a professional installer perform the job. This approach—presenting complex material in an accessible manner—helps students to better master the material.

Uniquely Integrative

International business is not simply a collection of separate business functions and environmental forces. The model shown here (and detailed in Chapter 1) is a unique organizing framework that helps students to understand how the elements of international business are related. It depicts a dynamic, integrated system that weaves together national business environments, the international business environment, and international business management. It also shows that characteristics of globalization (new technologies and falling barriers to trade and investment) are causing greater competition.

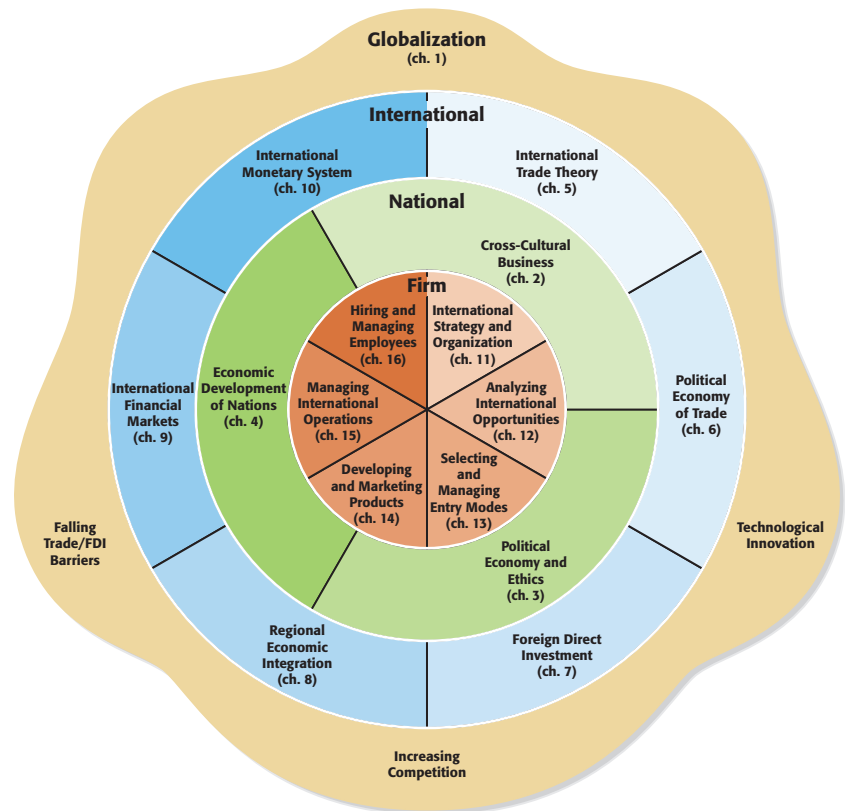
Interactive Approach

This book’s cutting-edge technology package helps students to better understand international business. MyManagementLab is an innovative set of course-management tools for delivering course material online and makes it easy to add meaningful assessment to the course. Whether interested in testing students on simple recall of concepts and theories or gauging how well students can apply their newly minted knowledge to real-world scenarios, MyManagementLab offers a variety of activities that are applied, personalized, and offer immediate feedback. Instructors and students say that the MyManagementLab learning system is fun and easy to use and far superior to anything available from any competitor.

Innovative Pedagogy

This book’s pedagogy stands apart from the competition:

- *Chapter-opening company profiles* are brief, easy-to-read introductions to each chapter’s content filtered through the lens of a real-world example. Instructors say these profiles of high-interest firms motivate students to turn the page and get reading the chapters. Companies profiled are on the leading edge of their industries and are inherently interesting to students, including Apple, PepsiCo, Infosys, Nintendo, Ryanair, Marvel, and Red Bull.
- *Global Sustainability* boxes present special topics related to economic, social, and environmental sustainability. Today, businesses know that flourishing markets rely on strong economies, thriving societies, and healthy environments. Topics include the factors that contribute to sustainable development, ending civil wars that destroy fragile societies, and how companies make their supply chains more environmentally friendly.
- *Culture Matters* boxes present the relation between culture and a key chapter topic. For example, Chapter 2 presents the importance of businesspeople developing a global mindset and avoiding cultural bias. Another chapter presents the debate over



Global Sustainability Three Markets, Three Strategies

A company adapts its business strategy to the nuances of the market it enters. The world’s population of 7 billion people lives in three different types of markets:

- **Developed Markets** These include the world’s established consumer markets, around one billion people. The population is solidly middle class, and people can consume almost any product desired. The infrastructure is highly developed and efficient.
- **Emerging Markets** These markets, around two billion people, are racing to catch up to developed nations. The population is migrating to cities for better pay and is overloading cities’ infrastructures. Rising incomes are increasing global demand for resources and basic products.
- **Traditional Markets** Globalization has bypassed these markets, nearly four billion people. The population is mostly rural, the infrastructure is very poor, and there is little credit or collateral. People have almost no legal protections, and corruption prevails.

Like business strategy, sustainability strategies reflect local conditions. Examples of businesses working toward sustainability in these three markets include the following:

- **Toyota** focused on the environment in its developed markets. After extensively researching gas-electric hybrid technologies, Toyota launched the Prius. As *Motor Trend’s* Car of the Year, the Prius drove Toyota’s profits to record highs and gave it a “green” image.
- **Shree Cement** faced limited access to low-cost energy in India’s emerging market. So it developed the world’s most energy-efficient process for making its products. The world’s leading cement companies now visit Shree to learn from its innovations in energy usage.
- **Blommer Chocolate** of the United States works closely with cocoa farmers in traditional markets. Blommer received the Rainforest Alliance’s “Sustainable Standard-Setter” award for training farmers in safe farming practices, environmental stewardship, and HIV awareness

Sources: Jeremy Jurgens and Knut Haanes, “Companies from Emerging Markets Are the New Sustainability Champions,” *The Guardian* (www.guardian.co.uk), October 12, 2011; Stuart L. Hart, *Capitalism at the Crossroads, Third Edition* (Upper Saddle River, NJ: Wharton School Publishing, 2010); Daniel C. Esty and Andrew S. Winston, *Green to Gold* (New Haven, CT: Yale University Press, 2006).

globalization's influence on culture, and still another box shows how entrepreneurs succeed by exploiting their knowledge of local cultures.

- *Manager's Briefcase* boxes address issues facing companies active in international business. Issues presented can be relevant to entrepreneurs and small businesses or to the world's largest global companies. Topics include obtaining capital to finance international activities, getting paid for exports, and how to be mindful of personal security while abroad on business.
- *NEW Learning Objectives* focus on the main lessons students should take away from the material and are summarized in bullet-point format at the end of the chapter. Learning objectives are now aligned with each main chapter section and with the chapter summary to aid comprehension.
- *NEW Quick Study* concept checks help students to verify that they have learned the section's key terms and important concepts before moving on.
- *Bottom Line for Business* sections conclude chapters and explain the impact of the chapter's topics on managers and their firms' policies, strategies, and activities abroad.
- *Full-Color World Atlas*, which appears as an appendix to Chapter 1, is a primer for students to test their knowledge of world geography and acts as a reference tool throughout the course.
- *Beacons* provide students with a "road map" of how chapters relate to one another. These beacons appear at the start of each chapter and are appropriately titled, "A Look Back," "A Look at This Chapter," and "A Look Ahead."
- *PowerPoint slides* for instructors contain teaching notes and include question slides to use as in-class comprehension checks.
- *Videos* are available to accompany this text and cover topics such as globalization, culture's impact on business, international business ethics, foreign direct investment, emerging markets, and entry modes.

Tools for Active Learning

Feedback on previous editions shows that this book has more—and more useful—end-of-chapter assignment material than any other international business book. Still, we refined the end-of-chapter exercises in response to the changing needs and desires of students and instructors. Carefully chosen assignment materials span the full range of complexity in order to test students' knowledge and ability to apply key principles. Assignment materials are often experiential in nature to help students develop decision-making skills. Assignment materials include the following:

- *Talk About It* questions can be used for in-class discussion or as homework assignments. These exercises raise important issues currently confronting entrepreneurs, international managers, policy makers, consumers, and others.
- *Ethical Challenge* exercises (in a "You are the . . ." format) ask students to assume the role of a manager, government official, or someone else and to make a decision based on the facts presented to them.
- *Teaming Up* projects go beyond the text and require students to collaborate in teams to conduct interviews, research other countries, or hold in-class debates. Projects expose students to different perspectives when they bring together students who have different cultural backgrounds.
- *Market Entry Strategy Project* is an interactive simulation that asks students to research a country as a future market for a new video game system, the M-Box. Working as part of a team, students research and analyze a country, and then recommend a course of action.
- *Practicing International Management* cases ask students to analyze the responses of real-world companies to the issues, problems, and opportunities discussed in each chapter.

Practicing International Management Case

A Tale of Two Cultures

Many cultures in Asia are in the midst of an identity crisis. In effect, they are being torn between two worlds. Pulling in one direction is a traditional value system derived from agriculture-based communities and extended families—that is, elements of a culture in which relatives take care of one another and state-run welfare systems are unnecessary. Pulling from the opposite direction is a new set of values emerging from manufacturing- and finance-based economies—elements of a culture in which workers must often move to faraway cities to find work, sometimes leaving family members to fend for themselves.

For decades, Western multinational corporations set up factories across Southeast Asia to take advantage of relatively low-cost labor. Later, local companies sprang up and became competitive global players in their own right. Spectacular rates of economic growth in a few short decades elevated living standards beyond what was thought possible. Young people in Malaysia and Thailand felt the lure of "Western" brands. Gucci handbags (www.gucci.com), Harley-Davidson motorcycles (www.harley-davidson.com), and other global brands became common symbols of success. Many parents felt that brand-consciousness among their teenage children signaled familywide success.

Despite the growing consumer society, polls of young people show them holding steadfast to traditional values such as respect for family and group harmony. Youth in Hong Kong, for example, overwhelmingly believe that parents should have a say in how hard they study, in how they treat family members and elders, and in their choice of friends.

Now globalization is washing over India. An explosion in outsourcing jobs caused a social revolution among India's graduates of technical colleges and universities. Unlike in India's traditional high-tech service jobs, young call-center staffers are in direct contact with Western consumers, answering inquiries on items such as tummy crunchers and diet pills. For these young, mostly female staffers, the work means money, independence, and freedom—sometimes far away from home in big cities such as Bangalore and Mumbai. But in addition to the training in American accents and geography, these workers are learning new ideas about family, materialism, and relationships.

Parents are suspicious of call-center work because it must typically be performed at night in India, when consumers are awake in Canada, Europe, or the United States. When her parents objected, Binitha Venugopal quit her call-center job in favor of a "regular" daytime job. Binitha says her former coworkers' values are changing and that dating and live-in relationships among them are common. Indian tradition dictates that young adults live with their parents at least until they get married (typically to someone

their parents choose). Perhaps facilitating shifting values in India is an influx of Western professionals, such as lawyers, who accepted good-paying jobs there that could not be found back home during the global recession.

Roopa Murthy works for an Indian company that offers call-center and back-office services. Roopa moved to Bangalore from her native Mysore armed with an accounting degree. She now earns \$400 per month, which is several times what her father earned before he retired from his government job. Roopa cut her hair short and tossed aside her *salwar kameez*, the traditional loose-fitting clothing she wore back home, in favor of designer-labeled Western attire.

Although she once shunned drinking and her curfew at home was 9 p.m., Roopa now frequents a pub called Geoffrey's, where she enjoys dry martinis and rum, and The Club, a suburban disco. Roopa confesses that she is "seeing someone" but that her parents would disapprove, adding, "It is difficult to talk to Indian parents about things like boyfriends." She said she sometimes envies her callers' lives but that she hopes her job will help her succeed. "I may be a small-town girl, but there is no way I'm going back to Mysore after this," she said. Many observers wonder whether Asia can embrace modernization and yet retain traditional values.

Thinking Globally

- 2-14. If you worked for an international firm doing business in Asia, is there anything you would suggest to ease the tensions these cultures are experiencing? Be specific.
- 2-15. Social ills in any country are normally born from a multitude of factors. What role, if any, do you think globalization is having in higher reported rates of divorce, crime, and drug abuse in Asia?
- 2-16. Broadly defined, Asia comprises more than 60 percent of the world's population—a population that practices Buddhism, Confucianism, Hinduism, Islam, and numerous other religions. Do you think it is possible to carry on a valid discussion of "Asian" values? Explain.

Sources: Heather Timmons, "Outsourcing to India Draws Western Lawyers," *New York Times* (www.nytimes.com), August 4, 2010; Lisa Tsering, "NBC Picks up Series 'Outsourced' for Fall 2010," *IndiaWest.com* website (www.indiawest.com), May 27, 2010; Saritha Rai, "India Outsourcing Workers Stressed to The Limit," *Silicon.com* website (www.silicon.com; now www.techrepublic.com), August 26, 2009; Sol E. Solomon, "Vietnam's IT Way to Social Progress," *Bloomberg Businessweek* (www.businessweek.com), May 19, 2008.

Faculty Resources

Instructor's Resource Center

At the Instructor Resource Center, www.pearsonhighered.com/irc, instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <http://247.pearsoned.com> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available with this text:

- **Instructor's Manual**
- **Test Bank**
- **TestGen®: Computerized Test Bank**
- **PowerPoint Presentation**

2015 Qualitative Business Video Library

Additional videos illustrating the most important subject topics are available in MyManagementLab, under

- Instructor Resources: Business Today.

Student Resources

Market Entry Strategy Project

Originally designed by David C. Wyld of Southeastern Louisiana University, this online, interactive project is available only through www.MyManagementLab.com.

CourseSmart

CourseSmart eTextbooks were developed for students looking to save the cost on required or recommended textbooks. Students simply select their eText by title or author and purchase immediate access to the content for the duration of the course using any major credit card. With a CourseSmart eText students can search for specific keywords or page numbers, take notes online, print out reading assignments that incorporate lecture notes, and bookmark important passages for later review. For more information or to purchase a CourseSmart eTextbook, visit HYPERLINK "<http://www.coursesmart.com>" www.coursesmart.com.

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About the Authors

John J. Wild and Kenneth L. Wild provide a blend of skills uniquely suited to writing an international business textbook. They combine award-winning teaching and research with a global view of business gained through years of living and working in cultures around the world. Their writing makes the topic of international business practical, accessible, and enjoyable.

John J. Wild John J. Wild is a distinguished Professor of Business at the University of Wisconsin at Madison. He previously held appointments at the University of Manchester in England and at Michigan State University. He received his B.B.A., M.S., and Ph.D. from the University of Wisconsin at Madison.

Teaching business courses at both the undergraduate and graduate levels, Professor Wild has received several teaching honors, including the Mabel W. Chipman Excellence-in-Teaching Award, the Teaching Excellence Award from the 2003 and 2005 business graduates from the University of Wisconsin, and a departmental Excellence-in-Teaching Award from Michigan State University. He is a prior recipient of national research fellowships from KPMG Peat Marwick and the Ernst and Young Foundation. Professor Wild is also a frequent speaker at universities and at national and international conferences.

The author of more than 60 publications, in addition to 5 best-selling textbooks, Professor Wild conducts research on a wide range of topics, including corporate governance, capital markets, and financial analysis and forecasting. He is an active member of several national and international organizations, including the Academy of International Business, and has served as associate editor and editorial board member for several prestigious journals.

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Having taught students of international business, marketing, and management at both the undergraduate and graduate levels, Dr. Wild is a dedicated contributor to international business education. An active member of several national and international organizations, including the Academy of International Business, Dr. Wild has spoken at major universities and at national and international conferences.

Dr. Wild's research covers a range of international business topics, including market entry modes, country risk in emerging markets, international growth strategies, and globalization of the world economy.

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International Business

The Challenges of Globalization

Chapter One

Globalization

Learning Objectives

After studying this chapter, you should be able to

1. Identify the types of companies active in international business.
2. Explain globalization and how it affects markets and production.
3. Detail the forces that are driving globalization.
4. Outline the debate over globalization's impact on jobs and wages.
5. Summarize the debate over income inequality.
6. Outline the debate over culture, sovereignty, and the environment.
7. Describe the global business environment and its main elements.

A Look at This Chapter


This chapter defines the scope of international business and introduces us to some of its most important topics. We begin by identifying the key players in international business today. We then present globalization, describing its influence on markets and production and the forces behind its growth. Next, we analyze each main argument in the debate over globalization in detail. This chapter closes with a model that depicts international business as occurring within an integrated global business environment.

A Look Ahead

Part 2, encompassing Chapters 2, 3, and 4, introduces us to the main features of national business environments. Chapter 2 describes important cultural differences among nations. Chapter 3 examines systems of political economy and philosophies of ethics and social responsibility. Chapter 4 presents issues regarding the economic development of nations.

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Apple's Global iMpa^ct

CUPERTINO, California—The Apple (www.apple.com) iPhone excites style lovers the world over and changed how all sorts of items are designed. With its focus on beauty and simplicity, the iPhone made “user-centered design” a catch phrase in business.

New applications (or “apps”) crop up daily that constantly expand the capabilities of the iPhone and its sibling, the iPad. Apple’s App Store boasts more than 1 million diverse offerings, around half of which are optimized for use on the iPad. A person can download an app for practically any interest they might have. And the iCloud adds convenience and flexibility as files instantly reflect changes that a user makes on any Apple device, be it an iPhone, iPad, or Mac computer.

Globalization allows Apple to produce and sell many of its models worldwide with little or no modification. This approach reduces Apple’s production and marketing costs while supporting its global brand strategy. Apple retails its products through more than 400 outlets in 16 countries and from its online store available in 40 countries.

When Apple entered South America in February of 2014 it opened its first store in Rio de Janeiro, Brazil. Brazil is the largest consumer market across the region and in the top five markets worldwide for smartphone sales. Despite the benefits of globalization, Apple still encounters issues in other markets that complicate pricing. For instance, a smartphone that costs \$700 in the United States will cost \$1,076 in Brazil. The higher price is due to the *custo Brasil* (Brazil cost), which arises from import tariffs and federal and state sales taxes. Prices of older Apple products that are made in Brazil reflect the higher cost of labor and more expensive rents there.

iTunes U is a free hosting service that Apple offers to colleges and universities that provides 24/7 access to educational materials. Students download lectures and other content to their mobile devices and watch or listen on the go. So if you see a backpack-toting student on campus listening to her iPod, she might be listening to her favorite playlist or her favorite instructor. As you read this chapter, consider how globalization is shaping our lives and altering the activities of international companies.¹



Source: © Radius Images/Corbis

Each of us experiences the results of international business transactions as we go about our daily routines. The General Electric (www.ge.com) alarm clock/radio that woke you this morning was made in *China*. The breaking news buzzing in your ears was produced by *Britain's* BBC radio (www.bbc.co.uk). You slip on your Adidas sandals (www.adidas.com) that were made in *Indonesia*, an Abercrombie & Fitch T-shirt (www.abercrombie.com) made in the *Northern Mariana Islands*, and American Eagle jeans (www.ae.com) made in *Mexico*. As you head out the door, you pull the battery charger off your Apple iPhone (www.apple.com), which was designed in the *United States* and assembled in *China* with parts from *Japan*, *South Korea*, *Taiwan*, and several other nations. You hop into your *Korean* Hyundai (www.hmmausa.com) that was made in *Alabama*, grab your iPod, and play a song by the *English* band Coldplay (www.coldplay.com). You drive to the local Starbucks (www.starbucks.com) to charge your own batteries with coffee brewed from beans harvested in *Colombia* and *Ethiopia*. Your day is just one hour old, but in a way, you've already taken a virtual trip around the world. A quick glance at the "Made in" tags on your jacket, backpack, watch, wallet, or other items with you right now will demonstrate the pervasiveness of international business transactions.

international business

Commercial transaction that crosses the borders of two or more nations.

imports

Goods and services purchased abroad and brought into a country.

exports

Goods and services sold abroad and sent out of a country.

International business is any commercial transaction that crosses the borders of two or more nations. You don't have to set foot outside a small town to find evidence of international business. No matter where you live, you'll be surrounded by **imports**—goods and services purchased abroad and brought into a country. Your counterparts around the world will undoubtedly spend some part of their day using your nation's **exports**—goods and services sold abroad and sent out of a country. Every year, all the nations of the world export goods worth \$18.4 trillion and services worth \$4.3 trillion. This figure is around 48 times the annual global revenue of Walmart Stores (www.walmart.com).²

People can view the role of international business in society very differently from each other, and they can approach globalization from very different perspectives. A businessperson may see globalization as an opportunity to source goods and services from lower-cost locations and to pry open new markets. An economist may see it as an opportunity to examine the impact of globalization on jobs and standards of living. An environmentalist may be concerned with how globalization affects our ecology. An anthropologist may want to examine the influence of globalization on the culture of a group of people. A political scientist may be concerned with the impact of globalization on the power of governments relative to that of multinational companies. And an employee may view globalization either as an opportunity for new work or as a threat to

We see the result of embracing globalization in this photo of skyscrapers in the Lujiazui Financial and Trade Zone of the Pudong New Area in Shanghai, China. After years of stunning economic growth and expansion, Shanghai has emerged as a key city for companies entering China's marketplace. Pudong was developed to reinvigorate Shanghai as an international trade and financial center. Pudong is now a modern, cosmopolitan district. How has globalization changed the economic landscape of your city and state?

Source: © Keren Su/Corbis



his or her current job. The different lenses through which we view events around us make globalization a rich and complex topic.

As technology drives down the cost of global communication and travel, globalization is increasingly exposing us to the traits and practices of other cultures. Individuals and businesses on the other side of the world can sell us their products and purchase our own easily online. Globalization forces companies to grow more competitive in the face of greater rivalry brought about by lower barriers to trade and investment. By knitting the world more tightly together, globalization is altering our private lives and transforming the way companies do business.

This chapter begins by examining the key players in international business. Then, we describe globalization's powerful influence on markets and production and explain the forces behind its expansion. Next, we cover each main point in the debate over globalization. We also explain why international business is special by presenting an integrated model of the global business environment. Finally, the appendix at the end of this chapter contains a world atlas to be used as a primer for this chapter's discussion and as a reference throughout the remainder of the book.

Key Players in International Business

Companies of all types and sizes and in all sorts of industries become involved in international business, yet they vary in the extent of their involvement. A small shop owner might only import supplies from abroad, whereas a large company may have dozens of factories located around the world. Large companies from the wealthiest nations still dominate international business. But firms from emerging markets (such as Brazil, China, India, and South Africa) now vigorously compete for global market share. Small and medium-sized companies are also increasingly active in international business, largely because of advances in technology.

Multinational Corporations

A **multinational corporation (MNC)** is a business that has direct investments (in the form of marketing or manufacturing subsidiaries) abroad in multiple countries. Multinationals generate significant jobs, investment, and tax revenue for the regions and nations they enter. Likewise, they can leave thousands of people out of work when they close or scale back operations. Mergers and acquisitions between multinationals are commonly worth billions of dollars and increasingly involve companies based in emerging markets.

Some companies have more employees than many of the smallest countries and island nations have citizens. Walmart, for example, has 2.2 million employees. We see the enormous economic clout of multinational corporations when we compare the revenues of the Global 500 ranking of companies with the value of goods and services that countries generate. Figure 1.1 shows the world's 10 largest companies (measured in revenue) inserted into a ranking of nations according to their national output (measured in GDP). If Walmart (www.walmart.com) were a country, it would weigh in as a rich nation and rank just three places behind Norway. Even the \$23 billion in revenue generated by the 500th largest firm in the world, Ricoh (www.ricoh.com), exceeds the annual output of many countries.³

Entrepreneurs and Small Businesses

International business competition has given rise to a new entity, the **born global firm**—a company that adopts a global perspective and engages in international business from or near its inception. Many of these companies become international competitors in less than three years' time. Born global firms tend to have *innovative* cultures and *knowledge-based* organizational capabilities. And in this age of globalization, companies are exporting earlier and growing faster, often with help from technology.

Small firms selling traditional products benefit from technology that lowers the costs and difficulties of global communication. Vellus Products (www.vellus.com) of Columbus, Ohio, makes and sells pet-grooming products. Around 20 years ago, a dog breeder in Spain became Vellus's first distributor after the breeder received a request for more information on Vellus's products from a man in Bahrain. "The way this [business transaction] transpired just blew me away," says Sharon Kay Doherty, president of Vellus. The company now has distributors in

multinational corporation (MNC)

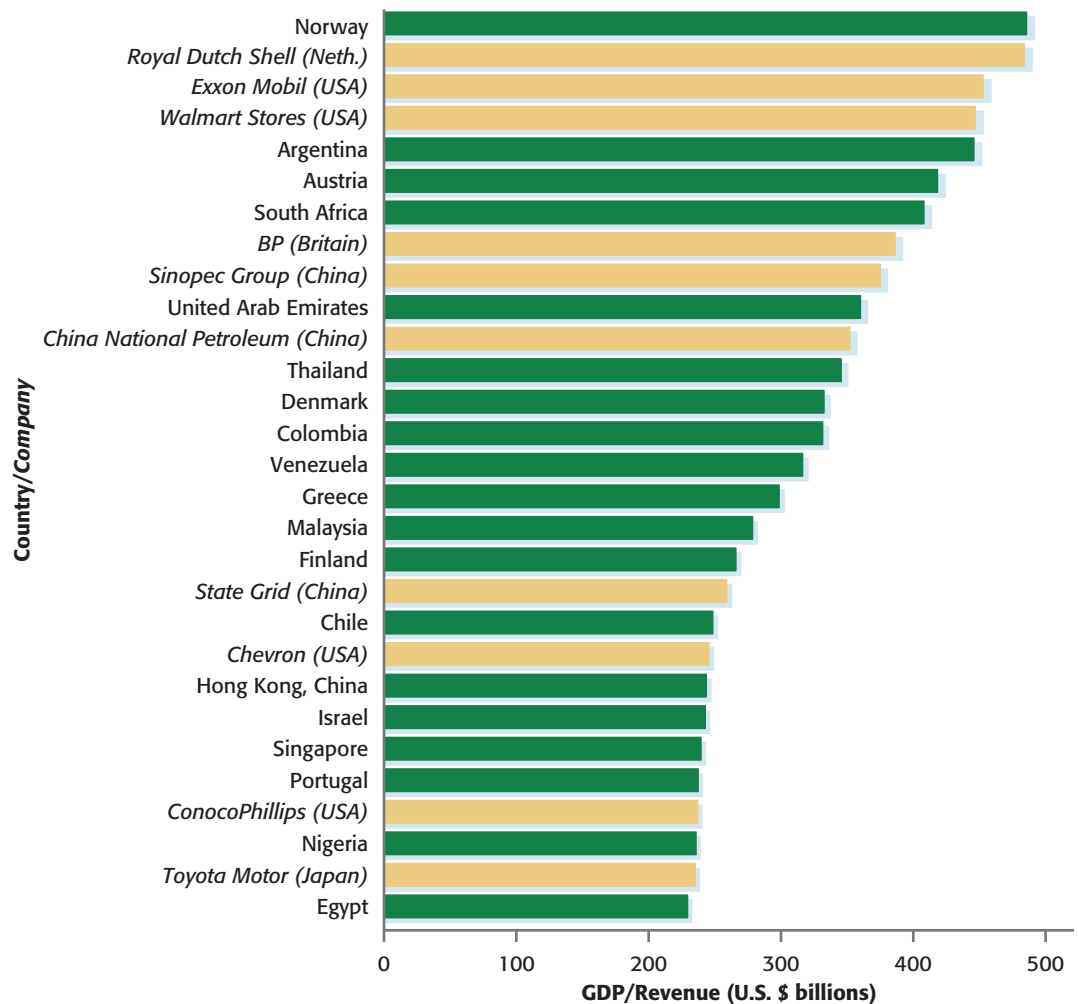
Business that has direct investments abroad in multiple countries.

born global firm

Company that adopts a global perspective and engages in international business from or near its inception.

Figure 1.1**Comparing the World's Largest Companies with Select Countries**

Source: Based on data obtained from "Fortune Global 500: The World's Largest Corporations," *Fortune*, July 23, 2012, pp. F1–F7; World Bank data set available at data.worldbank.org.



31 countries. Vellus resembles a global company in that it earned more than half its revenues from international sales soon after going international.⁴

Electronic distribution for firms that sell digitized products is an effective alternative to traditional distribution channels. Alessandro Naldi's Weekend in Italy website (en.firenze.waf.it) offers visitors more authentic Florentine products than they'll find in the scores of overpriced tourist shops in downtown Florence. A Florentine himself, Naldi established his site to sell high-quality, authentic Italian merchandise made only in the small factories of Tuscany. Weekend in Italy averages 200,000 visitors each month from places as far away as Australia, Canada, Japan, Mexico, and the United States.⁵

QUICK STUDY 1

1. What is the value of goods and services that all nations of the world export every year?
2. A business that has direct investments in marketing or manufacturing subsidiaries in multiple countries is called a *what*?
3. A born global firm engages in international business from or near its inception and does *what else*?

What Is Globalization?

Nations historically retained absolute control over the products, people, and capital crossing their borders. But today, economies are becoming increasingly intertwined. This greater interdependence means an increasingly freer flow of goods, services, money, people, and ideas across

national borders. **Globalization** is the name we give to this trend toward greater economic, cultural, political, and technological interdependence among national institutions and economies. Globalization is characterized by *denationalization* (national boundaries becoming less relevant) and is different from *internationalization* (entities cooperating across national boundaries).

It is helpful to put today's globalization into context. There was a first age of globalization that extended from the mid-1800s to the 1920s.⁶ In those days, labor was highly mobile, with 300,000 people leaving Europe each year in the 1800s and 1 million people leaving each year after 1900.⁷ Other than in wartime, nations did not even require passports for international travel before 1914. Like today, workers in wealthy nations feared competition for jobs from high- and low-wage countries.

Trade and capital flowed more freely than ever during that first age of globalization. Huge companies from wealthy nations built facilities in distant lands to extract raw materials and to produce all sorts of goods. Large cargo ships plied the seas to deliver their manufactures to distant markets. The transatlantic cable (completed in 1866) allowed news between Europe and the United States to travel faster than ever before. The drivers of that first age of globalization included the steamship, telegraph, railroad, and, later, the telephone and airplane.

That first age of globalization was abruptly halted by the arrival of the First World War, the Russian Revolution, and the Great Depression. A backlash to fierce competition in trade and to unfettered immigration in the early 1900s helped to usher in high tariffs and barriers to immigration. The great flows of goods, capital, and people common before the First World War became a mere trickle. For 75 years from the start of the First World War to the end of the Cold War, the world remained divided. There was a geographic divide between East and West and an ideological divide between communism and capitalism. After the Second World War, the West experienced steady economic gains, but international flows of goods, capital, and people were confined to their respective capitalist and communist systems and geographies.

Fast-forward to 1989 and the collapse of the wall separating East and West Berlin. One by one, central and eastern European nations rejected communism and began marching toward democratic institutions and free-market economic systems. Although it took until the 1990s for international capital flows, in absolute terms, to recover to levels seen prior to the First World War, the global economy had finally been *reborn*. The drivers of this second age of globalization include communication satellites, fiber optics, microchips, and the Internet.

Let's explore two areas of business in which globalization is having profound effects: the globalization of *markets* and *production*.

Globalization of Markets

Globalization of markets refers to the convergence in buyer preferences in markets around the world. This trend is occurring in many product categories, including consumer goods, industrial products, and business services. Clothing retailer L.L. Bean (www.llbean.com), shoe producer Nike (www.nike.com), and electronics maker Vizio (www.vizio.com) are just a few companies that sell *global products*—products marketed in all countries essentially without any changes. For example, the iPad qualifies as a global product because of its highly standardized features and because of Apple's global marketing strategy and globally recognized brand.

Global products and global competition characterize many industries and markets, including semiconductors (Intel, Philips), aircraft (Airbus, Boeing), construction equipment (Caterpillar, Mitsubishi), automobiles (Toyota, Volkswagen), financial services (Citicorp, HSBC), air travel (Lufthansa, Singapore Airlines), accounting services (Ernst & Young, KPMG), consumer goods (Procter & Gamble, Unilever), and fast food (KFC, McDonald's). The globalization of markets is important to international business because of the benefits it offers companies. Let's now look briefly at each of those benefits.

REDUCES MARKETING COSTS Companies that sell global products can reduce costs by *standardizing* certain marketing activities. A company selling a global consumer good, such as shampoo, can make an identical product for the global market and then simply design different packaging to account for the language spoken in each market. Companies can achieve further cost savings by keeping an ad's visual component the same for all markets but dubbing TV ads and translating print ads into local languages.

globalization

Trend toward greater economic, cultural, political, and technological interdependence among national institutions and economies.

CREATES NEW MARKET OPPORTUNITIES A company that sells a global product can explore opportunities abroad if its home market is small or becomes saturated. China holds enormous potential for online business with more than 500 million Internet users, which is greater than the population of the entire United States. But while more than 70 percent of people in the United States actively surf the web, only around 38 percent of people in China do.⁸ So as time goes on, more and more Chinese citizens will go online to research and purchase products. The appeal of reaching such a vast audience drives firms from relatively small countries to explore doing business in the Chinese market.

LEVELS UNEVEN INCOME STREAMS A company that sells a product with universal, but seasonal, appeal can use international sales to level its income stream. By supplementing domestic sales with international sales, the company can reduce or eliminate wide variations in sales between seasons and steady its cash flow. For example, a firm that produces suntan and sunblock lotions can match product distribution with the summer seasons in the northern and southern hemispheres in alternating fashion—thereby steadying its income from these global, yet highly seasonal, products.

LOCAL BUYERS' NEEDS In the pursuit of the potential benefits of global markets, managers must constantly monitor the match between the firm's products and markets in order to not overlook the needs of buyers. The benefit of serving customers with an adapted product may outweigh the benefit of a standardized one. For instance, soft drinks, fast food, and other consumer goods are global products that continue to penetrate markets around the world. But sometimes these products require small modifications to better suit local tastes. In southern Japan, Coca-Cola (www.cocacola.com) sweetens its traditional formula to compete with the sweeter-tasting Pepsi (www.pepsi.com). In India, where cows are sacred and the consumption of beef is taboo, McDonald's (www.mcdonalds.com) markets the “Maharaja Mac”—two all-mutton patties on a sesame-seed bun with all the usual toppings.

GLOBAL SUSTAINABILITY Another need that multinationals must consider is the need among all the world's citizens for **sustainability**—development that meets the needs of the present without compromising the ability of future generations to meet their own needs.⁹ Most companies today operate in an environment of increased transparency and scrutiny regarding their business activities. The rise of social media is partly responsible for this trend. Concerned individuals and nongovernmental organizations will very quickly use Internet media to call out any firm caught harming the environment or society.

For years, forward-looking businesses have employed the motto, “reduce, reuse, and recycle.” The idea is to *reduce* the use of resources and waste, *reuse* resources with more than a single-use lifespan, and *recycle* what cannot be reduced or reused. The most dedicated managers and firms promote sustainable communities by adding to that motto, “redesign and reimagine.” This means *redesigning* products and processes for sustainability and *reimagining* how a product is designed and used to lessen its environmental impact.¹⁰ To read more about the call for more sustainable business practices, see this chapter's Global Sustainability feature, titled “Three Markets, Three Strategies.”

Globalization of Production

Globalization of production refers to the dispersal of production activities to locations that help a company achieve its cost-minimization or quality-maximization objectives for a good or service. This includes the sourcing of key production inputs (such as raw materials or products for assembly) as well as the international outsourcing of services. Let's now explore the benefits that companies obtain from the globalization of production.

ACCESS LOWER-COST WORKERS Global production activities allow companies to reduce overall production costs through access to low-cost labor. For decades, companies located their factories in low-wage nations in order to churn out all kinds of goods, including toys, small appliances, inexpensive electronics, and textiles. Yet whereas moving production to low-cost locales traditionally meant *production of goods* almost exclusively, it increasingly applies to the *production of services* such as accounting and research. Although most services must be produced where they are consumed, some services can be performed at remote locations where labor costs

sustainability

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Global Sustainability

Three Markets, Three Strategies

A company adapts its business strategy to the nuances of the market it enters. The world's population of 7 billion people lives in three different types of markets:

- **Developed Markets** These include the world's established consumer markets, around *one billion* people. The population is solidly middle class, and people can consume almost any product desired. The infrastructure is highly developed and efficient.
- **Emerging Markets** These markets, around *two billion* people, are racing to catch up to developed nations. The population is migrating to cities for better pay and is overloading cities' infrastructures. Rising incomes are increasing global demand for resources and basic products.
- **Traditional Markets** Globalization has bypassed these markets, nearly *four billion* people. The population is mostly rural, the infrastructure is very poor, and there is little credit or collateral. People have almost no legal protections, and corruption prevails.

Like business strategy, sustainability strategies reflect local conditions. Examples of businesses working toward sustainability in these three markets include the following:

- **Toyota** focused on the environment in its *developed markets*. After extensively researching gas-electric hybrid technologies, Toyota launched the Prius. As *Motor Trend's* Car of the Year, the Prius drove Toyota's profits to record highs and gave it a "green" image.
- **Shree Cement** faced limited access to low-cost energy in India's *emerging market*. So it developed the world's most energy-efficient process for making its products. The world's leading cement companies now visit Shree to learn from its innovations in energy usage.
- **Blommer Chocolate** of the United States works closely with cocoa farmers in *traditional markets*. Blommer received the Rainforest Alliance's "Sustainable Standard-Setter" award for training farmers in safe farming practices, environmental stewardship, and HIV awareness

Sources: Jeremy Jurgens and Knut Haanæs, "Companies from Emerging Markets Are the New Sustainability Champions," *The Guardian* (www.guardian.co.uk), October 12, 2011; Stuart L. Hart, *Capitalism at the Crossroads, Third Edition* (Upper Saddle River, NJ: Wharton School Publishing, 2010); Daniel C. Esty and Andrew S. Winston, *Green to Gold* (New Haven, CT: Yale University Press, 2006).

are lower. Many European and U.S. businesses have moved their customer service and other nonessential operations to places as far away as India to slash costs by as much as 60 percent.

ACCESS TECHNICAL EXPERTISE Companies also produce goods and services abroad to benefit from technical know-how. Film Roman (www.filmroman.com) produces the TV series *The Simpsons*, but it provides key poses and step-by-step frame directions to AKOM Production Company (www.akomkorea.com) in Seoul, South Korea. AKOM then fills in the remaining poses and links them into an animated whole. But there are bumps along the way, says animation director Mark Kirkland. In one middle-of-the-night phone call, Kirkland was explaining to the Koreans how to draw a shooting gun. "They don't allow guns in Korea; it's against the law," says Kirkland. "So they were calling me [asking]: 'How does a gun work?'" Kirkland and others put up with such cultural differences and phone calls at odd hours to tap a highly qualified pool of South Korean animators.¹¹

ACCESS PRODUCTION INPUTS Globalization of production allows companies to access resources that are unavailable or more costly at home. The quest for natural resources draws many companies into international markets. Japan, for example, is a small, densely populated island nation with very few natural resources of its own—especially forests. But Japan's largest paper company, Nippon Seishi, does more than simply import wood pulp. The company owns huge forests and corresponding processing facilities in Australia, Canada, and the United States. This gives the firm not only access to an essential resource but also control over earlier stages in the papermaking process. As a result, the company is guaranteed a steady flow of its key ingredient (wood pulp) that is less subject to the swings in prices and supply associated with buying pulp on the open market. Likewise, to access cheaper energy resources used in manufacturing, a variety of Japanese firms are relocating production to China and Vietnam, where energy costs are lower than in Japan.

QUICK STUDY 2

1. Globalization causes the institutions and economies of nations to become *what*?
2. *What benefits* might companies obtain from the globalization of markets?
3. Sustainability is development that meets present needs without compromising *what*?