

# International Business

The Challenges of Globalization

Ninth Edition



John J. **WILD**  
Kenneth L. **WILD**

 Pearson

# Engage, Assess, Apply and Develop Employability Skills with MyLab Management

80% 

of students said it helped them earn higher grades on homework, exams, or the course

\*Source: 2016 Student Survey, n 490

**MyLab™ Management** is an online homework, tutorial, and assessment program constructed to work with this text to engage students and improve results. It was designed to help students develop and assess the skills and applicable knowledge that they will need to succeed in their courses and their future careers.

**See what more than 25,000 students had to say about MyLab Management:**

*"[MyLab Management] is great. I can access all of the information needed for the course under the home screen. It's easy to navigate and includes helpful videos and tips to help me better understand the course."*

— Sheena Dunio,  
Student at Southern New Hampshire University

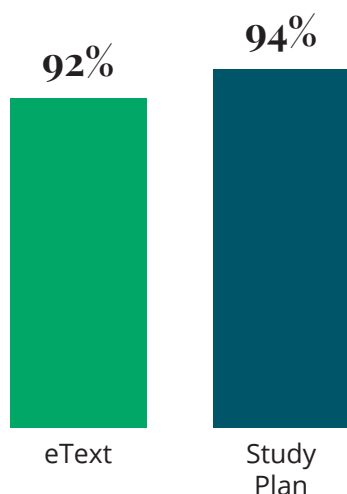
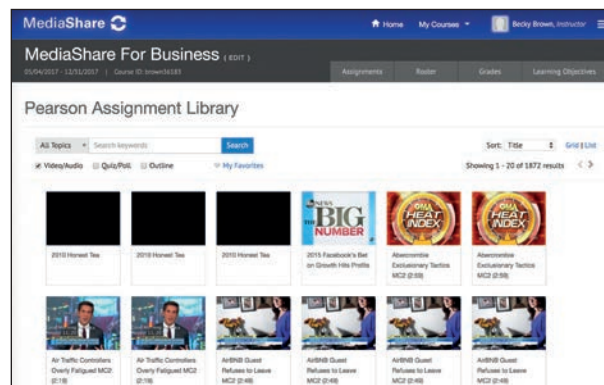
**Mini Sims** put students in business professional roles and give them the opportunity to apply course concepts as they develop **decision making skills** through real-world business challenges. The simulations adapt based on each student's decisions, creating various scenario paths that help students understand how **critical thinking** can affect their decisions in an organization.

*"[MyLab Management] helped to first learn the concepts and vocabulary. By watching videos and going through simulations it helped apply these concepts to real life and making decisions as a manager."*

— Alyssa Davidson, Student at Bowling Green State University



**MediaShare for Business** offers a curated collection of business videos that provide customizable, auto-scored assignments. MediaShare for Business helps students understand why they are learning key concepts and how they will **apply** those in their careers.



**% of students who found learning tool helpful**

**Pearson eText** enhances student learning—both in and outside the classroom. Take notes, highlight, and bookmark important content, or engage with interactive lecture and example videos that bring learning to life (available with select titles). Accessible anytime, anywhere via MyLab or the app.

**86%**



**of students would tell their instructor to keep using MyLab Management**

The **MyLab Gradebook** offers an easy way for students and instructors to view course performance. Item Analysis allows instructors to quickly see trends by analyzing details like the number of students who answered correctly/incorrectly, time on task, and median time spend on a question by question basis. And because it's correlated with the AACSB Standards, instructors can track students' progress toward outcomes that the organization has deemed important in preparing students to be **leaders**.

*"I was able to find myself actually learning at home rather than memorizing things for a class."*

— Katherine Vicente, Student at County College of Morris

For additional details visit: [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management)

*This page intentionally left blank*

# International Business

The Challenges of Globalization **Ninth Edition**

**John J. Wild**

*University of Wisconsin, Madison*

**Kenneth L. Wild**

*University of London, England*



Vice President, Business, Economics, and UK Courseware:  
Donna Battista  
Director of Portfolio Management: Stephanie Wall  
Director, Courseware Portfolio Management: Ashley Dodge  
Senior Sponsoring Editor: Neeraj Bhalla  
Editorial Assistant: Linda Albelli  
Vice President, Product Marketing: Roxanne McCarley  
Product Marketer: Kaylee McCarley  
Product Marketing Assistant: Mariana Silvestri  
Manager of Field Marketing, Business Publishing: Adam Goldstein  
Field Marketing Manager: Nicole Price  
Vice President, Production and Digital Studio, Arts and Business: Etain O'Dea  
Director of Production, Business: Jeff Holcomb  
Managing Producer, Business: Melissa Feimer

Content Producer: Sugandh Juneja  
Operations Specialist: Carol Melville  
Design Lead: Kathryn Foot  
Manager, Learning Tools: Brian Surette  
Content Developer, Learning Tools: Lindsey Sloan  
Managing Producer, Digital Studio and GLP, Media Production and Development: Ashley Santora  
Managing Producer, Digital Studio: Diane Lombardo  
Digital Studio Producer: Regina DaSilva  
Digital Studio Producer: Alana Coles  
Project Managers: Nicole Suddeth and Thomas Murphy, SPi Global  
Interior Design: Laurie Entringer  
Cover Design: Laurie Entringer  
Cover Art: Romolo Tavani/123RF.com  
Printer/Binder: LSC Communications, Inc./Menasha  
Cover Printer: Phoenix Color/Hagerstown

Microsoft and/or its respective suppliers make no representations about the suitability of the information contained in the documents and related graphics published as part of the services for any purpose. All such documents and related graphics are provided "as is" without warranty of any kind. Microsoft and/or its respective suppliers hereby disclaim all warranties and conditions with regard to this information, including all warranties and conditions of merchantability, whether express, implied or statutory, fitness for a particular purpose, title and non-infringement. In no event shall Microsoft and/or its respective suppliers be liable for any special, indirect or consequential damages or any damages whatsoever resulting from loss of use, data or profits, whether in an action of contract, negligence or other tortious action, arising out of or in connection with the use or performance of information available from the services.

The documents and related graphics contained herein could include technical inaccuracies or typographical errors. Changes are periodically added to the information herein. Microsoft and/or its respective suppliers may make improvements and/or changes in the product(s) and/or the program(s) described herein at any time. Partial screen shots may be viewed in full within the software version specified.

Microsoft® and Windows® are registered trademarks of the Microsoft Corporation in the U.S.A. and other countries. This book is not sponsored or endorsed by or affiliated with the Microsoft Corporation.

---

**Copyright © 2019, 2016, 2014 by Pearson Education, Inc. or its affiliates.** All Rights Reserved. Manufactured in the United States of America. This publication is protected by copyright, and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise. For information regarding permissions, request forms, and the appropriate contacts within the Pearson Education Global Rights and Permissions department, please visit [www.pearsoned.com/permissions/](http://www.pearsoned.com/permissions/).

Acknowledgments of third-party content appear on the appropriate page within the text which constitutes as an extension of this copyright page.

PEARSON, ALWAYS LEARNING, and MYLAB are exclusive trademarks owned by Pearson Education, Inc. or its affiliates in the U.S. and/or other countries.

Unless otherwise indicated herein, any third-party trademarks, logos, or icons that may appear in this work are the property of their respective owners, and any references to third-party trademarks, logos, icons, or other trade dress are for demonstrative or descriptive purposes only. Such references are not intended to imply any sponsorship, endorsement, authorization, or promotion of Pearson's products by the owners of such marks, or any relationship between the owner and Pearson Education, Inc., or its affiliates, authors, licensees, or distributors.

#### Library of Congress Cataloging-in-Publication Data on File

# Brief Contents

*Preface xviii*

## **PART 1** Global Business Environment 2

**Chapter 1** Globalization 2

## **PART 2** National Business Environments 40

**Chapter 2** Cross-Cultural Business 40

**Chapter 3** Political Economy and Ethics 70

**Chapter 4** Economic Development of Nations 102

## **PART 3** International Trade and Investment 128

**Chapter 5** International Trade Theory 128

**Chapter 6** Political Economy of Trade 152

**Chapter 7** Foreign Direct Investment 174

**Chapter 8** Regional Economic Integration 196

## **PART 4** The International Financial System 220

**Chapter 9** International Financial Markets 220

**Chapter 10** International Monetary System 244

## **PART 5** International Business Management 268

**Chapter 11** International Strategy and Organization 268

**Chapter 12** Analyzing International Opportunities 290

**Chapter 13** Selecting and Managing Entry Modes 314

**Chapter 14** Developing and Marketing Products 340

**Chapter 15** Managing International Operations 360

**Chapter 16** Hiring and Managing Employees 380

*Endnotes 398*

*Glossary 403*

*Name Index 411*

*Subject Index 413*

# Contents

Preface xviii

## **PART 1** Global Business Environment 2

### **Chapter 1** Globalization 2

*Apple's Global iMPact* 3

#### **1.1 Key Players in International Business 4**

Multinational Corporations 5

Entrepreneurs and Small Businesses 6

● **MANAGER'S BRIEFCASE:** The Keys to Global Success 6

#### **1.2 What is Globalization? 7**

Globalization of Markets 8

● **GLOBAL SUSTAINABILITY:** Three Markets, Three Strategies 9

Globalization of Production 9

#### **1.3 Forces Driving Globalization 10**

Falling Barriers to Trade and Investment 10

Technological Innovation 12

Measuring Globalization 16

#### **1.4 Debate about Jobs and Wages 17**

Against Globalization 17

For Globalization 17

Summary of the Jobs and Wages Debate 18

#### **1.5 Debate about Income Inequality 19**

Inequality within Nations 19

Inequality between Nations 19

Global Inequality 20

#### **1.6 Debate about Culture, Sovereignty, and the Environment 21**

Globalization and Culture 21

● **CULTURE MATTERS:** The Culture Debate 21

Globalization and National Sovereignty 22

Globalization and the Environment 22

#### **1.7 Developing Skills for your Career 23**

The Global Business Environment 24

The Road Ahead for International Business 25

● **BOTTOM LINE FOR BUSINESS** 26

Chapter Summary 27 • Key Terms 28 • Talk About It 1 28 • Talk About It 2 28 • Ethical Challenge 29 • Teaming Up 29 • Market Entry Strategy Project 29

● **PRACTICING INTERNATIONAL MANAGEMENT CASE** 30

### **Appendix** World Atlas 31



## PART 2 National Business Environments 40

### Chapter 2 Cross-Cultural Business 40

*Hold the Pork, Please!* 41

#### 2.1 What is Culture? 42

National Culture 42

Subcultures 43

Physical Environment 43

Need for Cultural Knowledge 44

● **CULTURE MATTERS:** Creating a Global Mindset 44

#### 2.2 Values and Behavior 45

Values 45

Attitudes 46

Aesthetics 46

Appropriate Behavior 46

● **MANAGER'S BRIEFCASE:** A Globetrotter's Guide to Meetings 47

#### 2.3 Social Structure and Education 48

Social Group Associations 48

Social Status 48

Social Mobility 49

Education 50

#### 2.4 Religion 51

Christianity 51

Islam 51

Hinduism 54

Buddhism 54

Confucianism 55

Judaism 55

Shinto 56

#### 2.5 Personal Communication 56

Spoken and Written Language 56

● **GLOBAL SUSTAINABILITY:** Speaking in Fewer Tongues 57

Body Language 58

#### 2.6 Culture in the Global Workplace 59

Perception of Time 59

View of Work 60

Material Culture 60

Cultural Change 61

Studying Culture in the Workplace 62

● **BOTTOM LINE FOR BUSINESS** 65

Chapter Summary 66 • Key Terms 67 • Talk About It 1 67 • Talk About It 2 68 • Ethical Challenge 68 • Teaming Up 68 • Market Entry Strategy Project 68

● **PRACTICING INTERNATIONAL MANAGEMENT CASE** 69

### Chapter 3 Political Economy and Ethics 70

*PepsiCo's Global Challenge* 71

#### 3.1 Political Systems 73

Totalitarianism 73

● **GLOBAL SUSTAINABILITY:** From Civil War to Civil Society 75

Democracy 75

● **MANAGER'S BRIEFCASE:** Your Global Security Checklist 77

**3.2 Economic Systems 78**

- Centrally Planned Economy 78
- Mixed Economy 80
- Market Economy 81

**3.3 Legal Systems 83**

- **CULTURE MATTERS: Playing by the Rules 83**
- Common Law 86
- Civil Law 86
- Theocratic Law 87

**3.4 Global Legal Issues 87**

- Intellectual Property 87
- Product Safety and Liability 89
- Taxation 89
- Antitrust Regulations 90

**3.5 Ethics and Social Responsibility 91**

- Philosophies of Ethics and Social Responsibility 91
- Bribery and Corruption 92
- Labor Conditions and Human Rights 92
- Fair Trade Practices 93
- Environment 93

● **BOTTOM LINE FOR BUSINESS 97**

Chapter Summary 98 • Key Terms 99 • Talk About It 1 99 • Talk About It 2 99 • Ethical Challenge 99 • Teaming Up 100 • Market Entry Strategy Project 100

● **PRACTICING INTERNATIONAL MANAGEMENT CASE 101**

**Chapter 4 Economic Development of Nations 102**

*India's Tech King 103*

**4.1 Economic Development 104**

- Classifying Countries 104
- National Production 105
- Purchasing Power Parity 108
- Human Development 109

**4.2 Economic Transition 110**

- Managerial Expertise 110
- Shortage of Capital 110
- Cultural Differences 111
- Sustainability 111

**4.3 Political Risk 111**

- **GLOBAL SUSTAINABILITY: Public Health Goes Global 114**
- Conflict and Violence 114
- Terrorism and Kidnapping 115
- Property Seizure 115
- Policy Changes 116
- Local Content Requirements 116

**4.4 Managing Political Risk 117**

- Adaptation 117
- Information Gathering 117
- Political Influence 118
- International Relations 118
- The United Nations 118

**4.5 Emerging Markets and Economic Transition 119**

China's Profile 119

Chinese Patience and *Guanxi* 120

China's Challenges 121

● **CULTURE MATTERS:** Guidelines for Good *Guanxi* 121

Russia's Profile 122

Russia's Challenges 122

● **MANAGER'S BRIEFCASE:** Russian Rules of the Game 123● **BOTTOM LINE FOR BUSINESS** 124

Chapter Summary 124 • Key Terms 125 • Talk About It 1 125 • Talk About It 2 126 • Ethical Challenge 126 • Teaming Up 126 • Market Entry Strategy Project 126

● **PRACTICING INTERNATIONAL MANAGEMENT CASE** 127**PART 3 International Trade and Investment 128****Chapter 5 International Trade Theory 128***From Bentonville to Beijing* 129**5.1 Benefits, Volume, and Patterns of International Trade 130**

Benefits of International Trade 130

Volume of International Trade 130

International Trade Patterns 131

● **CULTURE MATTERS:** Business Culture in the Pacific Rim 134**5.2 Mercantilism 135**

How Mercantilism Worked 135

Flaws of Mercantilism 136

**5.3 Theories of Absolute and Comparative Advantage 136**

Absolute Advantage 137

Comparative Advantage 138

**5.4 Factor Proportions Theory 140**

Labor Versus Land and Capital Equipment 141

Evidence on Factor Proportions Theory: The Leontief Paradox 141

**5.5 International Product Life Cycle 142**

Stages of the Product Life Cycle 142

Limitations of the Theory 142

● **MANAGER'S BRIEFCASE:** Five Fulfillment Mistakes 143**5.6 New Trade Theory 144**

First-Mover Advantage 144

**5.7 National Competitive Advantage 144**

Factor Conditions 145

● **GLOBAL SUSTAINABILITY:** Foundations of Development 145

Demand Conditions 146

Related and Supporting Industries 146

Firm Strategy, Structure, and Rivalry 146

Government and Chance 146

● **BOTTOM LINE FOR BUSINESS** 147

Chapter Summary 148 • Key Terms 149 • Talk About It 1 149 • Talk About It 2 149 • Ethical Challenge 150 • Teaming Up 150 • Market Entry Strategy Project 150

● **PRACTICING INTERNATIONAL MANAGEMENT CASE** 151

## Chapter 6 Political Economy of Trade 152

*Lord of the Movies* 153

### 6.1 Why do Governments Intervene in Trade? 154

Political Motives 154

● **GLOBAL SUSTAINABILITY:** Managing Security in the Age of Globalization 155

Economic Motives 156

Cultural Motives 157

● **CULTURE MATTERS:** Myths of Small Business Exporting 158

### 6.2 Instruments of Trade Promotion 159

Subsidies 159

Export Financing 159

Foreign Trade Zones 160

● **MANAGER'S BRIEFCASE:** Experts in Export Financing 160

Special Government Agencies 161

### 6.3 Instruments of Trade Restriction 161

Tariffs 161

Quotas 162

Embargoes 164

Local Content Requirements 164

Administrative Delays 164

Currency Controls 165

### 6.4 Global Trading System 165

General Agreement on Tariffs and Trade (GATT) 165

World Trade Organization (WTO) 167

● **BOTTOM LINE FOR BUSINESS** 169

Chapter Summary 170 • Key Terms 171 • Talk About It 1 171 • Talk About It 2 171 • Ethical Challenge 171 • Teaming Up 172 • Market Entry Strategy Project 172

● **PRACTICING INTERNATIONAL MANAGEMENT CASE** 173

## Chapter 7 Foreign Direct Investment 174

*Das Auto* 175

### 7.1 Pattern of Foreign Direct Investment 176

Ups and Downs of FDI 176

● **CULTURE MATTERS:** The Cowboy of Manchuria 178

Worldwide Flows of FDI 178

### 7.2 Theories of Foreign Direct Investment 179

International Product Life Cycle 179

Market Imperfections (Internalization) 179

Eclectic Theory 180

Market Power 180

### 7.3 Management Issues and Foreign Direct Investment 181

Control 181

Purchase-or-Build Decision 182

Production Costs 182

● **MANAGER'S BRIEFCASE:** Surprises of Investing Abroad 182

Customer Knowledge 184

Following Clients 184

Following Rivals 184

● **GLOBAL SUSTAINABILITY:** Greening the Supply Chain 184

**7.4 Why Governments Intervene in FDI 185**

- Balance of Payments 185
- Reasons for Intervention by the Host Country 186
- Reasons for Intervention by the Home Country 187

**7.5 Government Policy Instruments and FDI 189**

- Host Countries: Promotion 189
- Host Countries: Restriction 190
- Home Countries: Promotion 190
- Home Countries: Restriction 190

● **BOTTOM LINE FOR BUSINESS 191**

Chapter Summary 191 • Key Terms 192 • Talk About It 1 193 • Talk About It 2 193 • Ethical Challenge 193 • Teaming Up 193 • Market Entry Strategy Project 194

● **PRACTICING INTERNATIONAL MANAGEMENT CASE 195****Chapter 8 Regional Economic Integration 196*****Nestlé's Global Recipe 197*****8.1 Levels of Integration and the Debate 198**

- Free Trade Area 198
- Customs Union 199
- Common Market 199
- Economic Union 199
- Political Union 199
- The Case for Regional Integration 199
- The Case Against Regional Integration 201

**8.2 Integration in Europe 202**

- European Union 203
- **CULTURE MATTERS: Czech List 208**
- European Free Trade Association (EFTA) 209

**8.3 Integration in the Americas 209**

- North American Free Trade Agreement 209
- Central American Free Trade Agreement (CAFTA-DR) 211
- Andean Community (CAN) 211
- Southern Common Market (MERCOSUR) 212
- Central America and the Caribbean 212
- Free Trade Area of the Americas (FTAA) 213

**8.4 Integration in Asia and Elsewhere 213**

- Association of Southeast Asian Nations (ASEAN) 213
- Asia Pacific Economic Cooperation (APEC) 213
- **MANAGER'S BRIEFCASE: The Ins and Outs of ASEAN 214**
- Closer Economic Relations (CER) Agreement 214
- Gulf Cooperation Council (GCC) 214
- Economic Community of West African States (ECOWAS) 215
- African Union (AU) 215

● **BOTTOM LINE FOR BUSINESS 216**

Chapter Summary 216 • Key Terms 217 • Talk About It 1 217 • Talk About It 2 218 • Ethical Challenge 218 • Teaming Up 218 • Market Entry Strategy Project 218

● **PRACTICING INTERNATIONAL MANAGEMENT CASE 219**

## PART 4 The International Financial System 220

### Chapter 9 International Financial Markets 220

#### *Wii Is the Champion* 221

#### 9.1 Importance of the International Capital Market 222

Purposes of National Capital Markets 223

Purposes of the International Capital Market 223

● **GLOBAL SUSTAINABILITY: Big Results from Microfinance** 224

Forces Expanding the International Capital Market 224

World Financial Centers 225

#### 9.2 International Capital Market Components 226

International Bond Market 226

International Equity Market 227

Eurocurrency Market 227

#### 9.3 The Foreign Exchange Market 228

Functions of the Foreign Exchange Market 228

#### 9.4 Currency Quotes and Rates 230

Quoting Currencies 230

Spot Rates 233

Forward Rates 233

Swaps, Options, and Futures 234

#### 9.5 Market Instruments and Institutions 235

Trading Centers 235

Important Currencies 235

Interbank Market 236

Securities Exchanges 236

Over-the-Counter Market 237

● **MANAGER'S BRIEFCASE: Managing Foreign Exchange** 237

Instruments for Restricting Currencies 238

● **BOTTOM LINE FOR BUSINESS** 238

Chapter Summary 239 • Key Terms 240 • Talk About It 1 240 • Talk About It 2 241 • Ethical Challenge 241 • Teaming Up 241 • Market Entry Strategy Project 241

● **PRACTICING INTERNATIONAL MANAGEMENT CASE** 242

### Appendix Calculating Percent Change in Exchange Rates 243

### Chapter 10 International Monetary System 244

#### *Euro Rollercoaster* 245

#### 10.1 Importance of Exchange Rates 246

Desire for Predictability and Stability 247

Efficient versus Inefficient Market View 247

Forecasting Techniques 248

Difficulties of Forecasting 248

● **CULTURE MATTERS: The Long Arm of the Law** 249

#### 10.2 What Factors Determine Exchange Rates? 249

Law of One Price 249

Purchasing Power Parity 250

#### 10.3 Fixed Exchange Rate Systems 254

The Gold Standard 254

Bretton Woods Agreement 255

**10.4 System of Floating Exchange Rates 257**

Today's Exchange-Rate Arrangements 258

● **MANAGER'S BRIEFCASE:** Adjusting to Currency Swings 259

European Monetary System 259

Recent Financial Crises 260

Future of the International Monetary System 262

● **BOTTOM LINE FOR BUSINESS** 263

Chapter Summary 264 • Key Terms 265 • Talk About It 1 265 • Talk About It 2 265 • Ethical Challenge 265 • Teaming Up 266 • Market Entry Strategy Project 266

● **PRACTICING INTERNATIONAL MANAGEMENT CASE** 267**PART 5** International Business Management 268**Chapter 11** International Strategy and Organization 268*Flying High with Low Fares* 269**11.1 Company Analysis 270**

Company Mission and Goals 270

Core Competency and Value-Creation 271

● **MANAGER'S BRIEFCASE:** Ask Questions before Going Global 273**11.2 Strategy Formulation 274**

Two International Strategies 274

Corporate-Level Strategies 276

Business-Level Strategies 276

Department-Level Strategies 278

**11.3 Issues of Organizational Structure 279**

Centralization versus Decentralization 279

Coordination and Flexibility 280

**11.4 Types of Organizational Structure 281**

International Division Structure 281

International Area Structure 282

Global Product Structure 282

Global Matrix Structure 283

Work Teams 283

**A Final Word 285**

Chapter Summary 286 • Key Terms 287 • Talk About It 1 287 • Talk About It 2 287 • Ethical Challenge 287 • Teaming Up 288

● **PRACTICING INTERNATIONAL MANAGEMENT CASE** 289**Chapter 12** Analyzing International Opportunities 290*Starbucks Causes Global Jitters* 291**12.1 Basic Appeal and National Factors 292**

Step 1: Identify Basic Appeal 292

Step 2: Assess the National Business Environment 294

● **MANAGER'S BRIEFCASE:** Conducting Global e-Business 298**12.2 Measure and Select the Market or Site 298**

Step 3: Measure Market or Site Potential 298

Step 4: Select the Market or Site 301

**12.3 Secondary Market Research 304**

International Organizations 304

Government Agencies 305

- Industry and Trade Associations 306
- Service Organizations 306
- Internet 306
- Problems with Secondary Research 307

**12.4 Primary Market Research 308**

- Trade Shows and Trade Missions 308
- **CULTURE MATTERS:** *Is the World Your Oyster?* 309
- Interviews and Focus Groups 309
- Surveys 309
- Environmental Scanning 310
- Problems with Primary Research 310

**A Final Word 311**

- Chapter Summary 311 • Key Terms 312 • Talk About It 1 312 • Talk About It 2 312 • Ethical Challenge 312 • Teaming Up 312

- **PRACTICING INTERNATIONAL MANAGEMENT CASE 313**

**Chapter 13** Selecting and Managing Entry Modes 314

***License to Thrill 315***

**13.1 Exporting, Importing, and Countertrade 316**

- Why Companies Export 316
- Developing an Export Strategy: A Four-Step Model 317
- Degree of Export Involvement 318
- Avoiding Export and Import Blunders 320
- Countertrade 320

**13.2 Export/Import Financing 321**

- Advance Payment 322
- Documentary Collection 322
- Letter of Credit 323
- Open Account 324
- **MANAGER'S BRIEFCASE:** *Collecting International Debts* 324

**13.3 Contractual Entry Modes 325**

- Licensing 325
- Franchising 326
- Management Contracts 328
- Turnkey Projects 328

**13.4 Investment Entry Modes 329**

- Wholly Owned Subsidiaries 329
- Joint Ventures 330
- Strategic Alliances 332

**13.5 Strategic Factors in Selecting an Entry Mode 333**

- Selecting Partners for Cooperation 333
- **CULTURE MATTERS:** *Negotiating Market Entry* 334
- Cultural Environment 334
- Political and Legal Environments 334
- Market Size 334
- Production and Shipping Costs 335
- International Experience 335

**A Final Word 335**

- Chapter Summary 335 • Key Terms 337 • Talk About It 1 337 • Talk About It 2 337 • Ethical Challenge 337 • Teaming Up 338

- **PRACTICING INTERNATIONAL MANAGEMENT CASE 339**



**Chapter 14** Developing and Marketing Products 340*Wings for Life* 341**14.1 Developing Product Strategies** 342

- Laws and Regulations 342
- Cultural Differences 343
- Brand and Product Names 343
- National Image 344
- Counterfeit Goods and Black Markets 345
- Shortened Product Life Cycles 345

**14.2 Creating Promotional Strategies** 346

- Push and Pull Strategies 346
- **MANAGER'S BRIEFCASE:** *Managing an International Sales Force* 347
- International Advertising 347
- Blending Product and Promotional Strategies 349
- **CULTURE MATTERS:** *Localizing Websites* 351

**14.3 Designing Distribution Strategies** 352

- Designing Distribution Channels 352
- Influence of Product Characteristics 353
- Special Distribution Problems 353

**14.4 Developing Pricing Strategies** 354

- Worldwide Pricing 354
- Dual Pricing 355
- Factors That Affect Pricing Decisions 355

**A Final Word** 356

Chapter Summary 357 • Key Terms 357 • Talk About It 1 358 • Talk About It 2 358 • Ethical Challenge 358 • Teaming Up 358

- **PRACTICING INTERNATIONAL MANAGEMENT CASE** 359

**Chapter 15** Managing International Operations 360*Toyota Races Ahead* 361**15.1 Production Strategy** 362

- Capacity Planning 362
- Facilities Location Planning 362
- Process Planning 364
- Facilities Layout Planning 365

**15.2 Acquiring Physical Resources** 365

- Make-or-Buy Decision 365
- Raw Materials 368
- Fixed Assets 368

**15.3 Key Production Concerns** 369

- Quality Improvement Efforts 369
- Shipping and Inventory Costs 370
- **MANAGER'S BRIEFCASE:** *World-Class Standards* 370
- Reinvestment versus Divestment 371

**15.4 Financing Business Operations** 371

- Borrowing 372
- Issuing Equity 372
- Internal Funding 373
- **CULTURE MATTERS:** *Financing Business from Abroad* 374
- Capital Structure 374

**A Final Word** 375

Chapter Summary 376 • Key Terms 377 • Talk About It 1 377 • Talk About It 2 377 • Ethical Challenge 377 • Teaming Up 378

- **PRACTICING INTERNATIONAL MANAGEMENT CASE** 379

**Chapter 16** Hiring and Managing Employees 380

*Leaping Cultures* 381

**16.1 International Staffing Policies** 382

Ethnocentric Staffing 382

Polycentric Staffing 384

Geocentric Staffing 384

**16.2 Recruiting and Selecting Human Resources** 385

Human Resource Planning 385

● **MANAGER'S BRIEFCASE: Growing Global** 385

Recruiting Human Resources 386

Selecting Human Resources 386

Culture Shock 387

Reverse Culture Shock 387

● **CULTURE MATTERS: A Shocking Ordeal** 388

**16.3 Training and Development** 388

Methods of Cultural Training 389

Compiling a Cultural Profile 390

Nonmanagerial Worker Training 391

**16.4 Employee Compensation** 391

Managerial Employees 391

Nonmanagerial Workers 392

**16.5 Labor–Management Relations** 393

Importance of Labor Unions 393

**A Final Word** 394

Chapter Summary 394 • Key Terms 395 • Talk About It 1 395 • Talk About It  
2 396 • Ethical Challenge 396 • Teaming Up 396

● **PRACTICING INTERNATIONAL MANAGEMENT CASE** 397

*Endnotes* 398

*Glossary* 403

*Name Index* 411

*Subject Index* 413

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

The accompanying cutting-edge technology package also helps students to better understand international business. MyLab Management 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, MyLab Management 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 ninth 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 approach to international business. The reception of this textbook in the United States and across the world has exceeded all expectations.

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.

## New to This Edition

- Learning Objectives for each chapter now appear in the margins of the text right next to where the corresponding material begins. This allows the reader to better follow the material presented in each chapter and increases student comprehension.
- New material in Chapter 1 includes coverage of highly useful capabilities we call employability skills. Where appropriate, the book presents material that helps students to develop critical thinking skills, refine their sense of business ethics and social responsibility, develop their communication skills, and expand their ability to apply and analyze knowledge.
- Chapter 1 topic of the world's largest companies and its accompanying Figure 1.1 has been updated, as is material on the most globalized nations and the timely and important topic of global inequality.
- The Manager's Briefcase feature in Chapter 1 appears earlier to emphasize the textbook's applied and managerial treatment of material.
- Presentation of national illiteracy rates and its accompanying Table 2.1 are updated to present the most recent data available.
- Figure 3.2 and its discussion reflect recent data on business software piracy rates around the world.
- The most recently available Human Development Index is presented in Table 4.1 along with its updated in-text explanation.
- Table 5.1 presents most recently available data on the world's top exporters and importers, by both US dollar value and share of the world total.
- Chapter 5 discussion of regional merchandise trade has been removed to present the material in a more streamlined and less complicated fashion.
- Chapter 6 contains an update to the discussion of the WTO Doha Round of negotiations.
- Figures 7.1 and 7.2 and their explanations update the annual value of foreign direct investment inflows and cross-border mergers and acquisitions, respectively.
- Chapter 8 presentation of regional trading blocs contains the latest available information on Britain's exit (Brexit) from the European Union, Venezuela's suspension from the Southern Common Market, and other events.
- Chapter 10 updates the discussion of exchange rates among major world currencies, value of the US dollar over time, and the addition of China's currency to the IMF's special drawing right (SDR).
- Table 12.1 updates the ranking of the world's top market research firms.

- Chapter 13 discussion of letter-of-credit financing and its related Figure 13.4 have been revised for precision and a smoother presentation.
- All chapter-opening company profiles and chapter-closing mini-cases are updated to reflect the most recent data and facts available at the time of publication.

## Solving Teaching and Learning Challenges

Students who take the international business course can have difficulty seeing the relevance of certain key concepts to their lives and future careers. These topics can include political economy, trade theory, foreign exchange rates, and the international financial system. This can reduce the willingness of a student to prepare for class and be engaged in class.

We use the ever-present and salient subject of culture to present real-world examples and engaging features to bring international business to life and pique student interest. We present complex material in concrete, straightforward terms and illustrate it appropriately to make international business accessible for all students. This approach makes the material interesting and relevant and shows students the importance of these concepts to their future employability and careers. We use the following additional methods and resources to engage students with the content of international business:

### Interactive Approach to International Business

Pearson’s MyLab Management is now fully integrated into the text. These features are outlined below. The online assessment activities enable you to quiz your students before class so you have more time in class to focus on areas that students find most challenging.

**Watch It Cases** expose students to life in other cultures by asking them to view a video clip on a key topic. Each video corresponds to the chapter material and is accompanied by multiple choice questions that reinforce student comprehension.

**Try It Simulations** ask students to apply what they have learned in a textbook section and provide immediate feedback. Students make choices based on realistic business scenarios, which reinforces student comprehension of key concepts.

**Quick Study Concept Checks** appear at the end of each textbook section to verify that students have learned key terms and concepts before moving on. Students obtain immediate feedback on answers they provide in an online environment.

#### MyLab Management

##### ★ IMPROVE YOUR GRADE!

When you see this icon ★, visit [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) for activities that are applied, personalized, and offer immediate feedback.

##### ★ MyLab Management Watch It Save the Children Social Networking

Apply what you have learned about the use of technology in management. If your instructor has assigned this, go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to watch a video case about how a not-for-profit enterprise uses social media to achieve its goals and answer questions.

##### ★ MyLab Management Try It

Apply what you have learned about the effects of globalization. If your instructor has assigned this, go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to perform a simulation on the potential positive and negative outcomes of globalization.

#### QUICK STUDY 4

1. In the debate about jobs and wages, opponents of globalization say that it does *what*?
2. In the debate about jobs and wages, supporters of globalization say that it does *what*?

## Making International Business Relevant

This textbook captures the real-world characteristics of international business today by emphasizing the importance of cultural influences, sustainable business practices, and managerial implications.

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

**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.

### CULTURE MATTERS

#### The Culture Debate

The debate about globalization’s influence on culture evokes strong opinions. Here are a few main arguments in this debate:

- **Material Desire.** Critics say globalization fosters the “Coca-Colonization” of nations through advertising campaigns that promote material desire. They also argue that global consumer-goods companies destroy cultural diversity (especially in developing nations) by putting local companies out of business.
- **Artistic Influence.** Evidence suggests, however, that the cultures of developing nations are thriving and that the influence of their music, art, and literature has grown (not shrunk) throughout the past century. African cultures, for example, have influenced the works of artists including Picasso, the Beatles, and Sting.
- **Western Values.** International businesses reach far and wide through the Internet, global media, increased business travel, and local marketing. Critics say local values and traditions are being replaced by US companies promoting “Western” values.

- **A Force for Good.** On the positive side, globalization tends to foster two important values: tolerance and diversity. Advocates say nations should be more tolerant of opposing viewpoints and should welcome diversity among their peoples. This view interprets globalization as a potent force for good in the world.
- **Deeper Values.** Globalization can cause consumer purchases and economic ideologies to converge, but these are rather superficial aspects of culture. Deeper values that embody the essence of cultures might be more resistant to a global consumer culture.
- **Want to Know More?** Visit the globalization page of the Global Policy Forum ([www.globalpolicy.org](http://www.globalpolicy.org)), Globalization 101 ([www.globalization101.org](http://www.globalization101.org)), or The Globalist ([www.theglobalist.com](http://www.theglobalist.com)).

Sources: “Economic Globalization and Culture: A Discussion with Dr. Francis Fukuyama,” Merrill Lynch Forum website ([www.ml.com](http://www.ml.com)); “Globalization Issues,” The Globalization website ([www.sociology.emory.edu/globalization/index.html](http://www.sociology.emory.edu/globalization/index.html)); “Cultural Diversity in the Era of Globalization,” UNESCO Culture Sector website ([www.unesco.org/culture](http://www.unesco.org/culture)).

**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 7.5 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: Wang Wen, "Emerging Markets are Set to Lead Globalisation," *Financial Times* (www.ft.com), April 10, 2017; 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).

**MANAGER'S BRIEF CASE** The Keys to Global Success

Making everything from 99-cent hamburgers (McDonald's) to \$150 million jumbo jets (Boeing), managers of global companies must overcome obstacles when competing in unfamiliar markets. Global managers acknowledge certain common threads in their approaches to management and offer the following advice:

- **Communicate Effectively** Cultural differences in business relationships and etiquette are central to global business and require cross-cultural competency. Effective global managers welcome uniqueness and ambiguity while demonstrating flexibility, respect, and empathy.
- **Know the Customer** Successful managers understand how a company's different products serve the needs of international customers. Then, they ensure that the company remains flexible and capable enough to customize products that meet those needs.

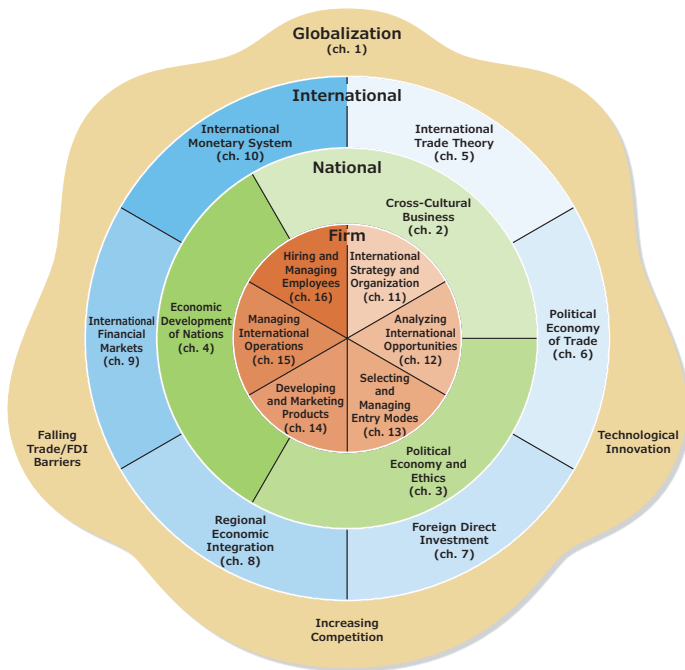
- **Emphasize Global Awareness** Good global managers integrate foreign markets into business strategy from the outset. They ensure that products and services are designed and built with global markets in mind, and not used as dumping grounds for the home market's outdated products.
- **Market Effectively** The world will beat a path to your door to buy your "better mousetrap" only if it knows about it. A poor marketing effort can cause great products to fade into obscurity while an international marketing blunder can bring unwanted media attention. Top global managers match quality products with excellent marketing.
- **Monitor Global Markets** Successful managers keep a watchful eye on business environments for shifting political, legal, and socioeconomic conditions. They make obtaining accurate information a top priority.

Topics include the factors that contribute to sustainable development, and how companies can make their supply chains more environmentally friendly.

**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.

**Uniquely Integrative**

International business is not simply a collection of separate business functions and environmental forces. The model shown below (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.



**Tools for Active Learning**

Carefully chosen assignment materials span the full range of complexity to test students' knowledge and ability to apply key principles. Assignment materials are often experiential in nature to help students develop decision-making skills.

**Talk About It** questions raise important issues currently confronting entrepreneurs, international managers, policy makers, consumers, and others.

**Ethical Challenge** exercises 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.

**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. 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.

**TALK ABOUT IT 1**

Today, international businesspeople must think globally about production and sales opportunities. Many global managers will eventually find themselves living and working in other cultures, and entrepreneurs might find themselves taking flights to places they had never heard about.

- 1-1. What can companies do now to prepare their managers for international markets?
- 1-2. How can entrepreneurs and small businesses with limited resources prepare?

**TALK ABOUT IT 2**

In the past, national governments influenced the pace of globalization through agreements to lower barriers to international trade and investment.

- 1-3. Is rapid change now outpacing the capability of governments to manage the global economy?
- 1-4. Will national governments grow more or less important to international business in the future?

**Ethical Challenge**

You are the executive director of Qualitative Research Consultants Association (QRCA), an organization designed to assist market research practitioners. Every QRCA member must agree to abide by a ten-point code of ethics that forbids practices such as discriminating in respondent recruitment and offering kickbacks or other favors in exchange for business. The code also calls for research to be conducted for legitimate research purposes and not as a front for product promotion.

- 12-5. Why do you think the QRCA and other market research organizations create such codes?
- 12-6. Do you believe such codes are helpful in reducing unethical research practices? Explain.
- 12-7. As QRCA director, what other areas of marketing research do you believe should be covered by ethical codes of conduct?

**Teaming Up**

Imagine that you and several of your classmates own a company that manufactures cheap sunglasses. To lower production costs, you decide to move your factory from your developed country to a more cost-effective location.

- 1-8. Which elements of the national business environment might influence your decision of where to move production?
- 1-9. What aspects of the globalization of production and marketing do you expect will benefit your company after the move?

**Market Entry Strategy Project**

This exercise corresponds to the *MESP* online simulation. With several classmates, select a country that interests you. For the country your team researches, integrate your answers to the following questions into your completed *MESP* report.

- 1-10. Is the nation the home base of any large multinational companies?
- 1-11. How does globalization influence the country's jobs and wages, its income inequality, and its culture, sovereignty, and physical environment?
- 1-12. How does the country rank in terms of its degree of globalization?
- 1-13. What benefits can the country offer to businesses seeking a new market or production base?

**PRACTICING INTERNATIONAL MANAGEMENT CASE**

**Toyota's Strategy for Production Efficiency**

Toyota Motor Corporation ([www.toyota-global.com](http://www.toyota-global.com)) commonly appears in most rankings of the world's most respected companies. One reason for Toyota's strong showing in such rankings is that the company always seems to maintain profitability in the face of economic downturns and slack demand. Another reason is that leaders in a wide range of industries have high regard for Toyota's management and production practices.

Toyota first began producing cars in 1937. In the mid-1950s, a machinist named Taiichi Ohno began developing a new concept of automobile production. Today, the approach known as the Toyota Production System (TPS) has been intensely studied and widely copied throughout the automobile industry. Ohno, who is addressed by fellow employees as *sensei* ("teacher and master"), followed the lead of the family that founded Toyota (spelled Toyoda) by exhibiting high regard for company employees. Ohno also believed that mass production of automobiles was obsolete and that a flexible production system that produced cars according to specific customer requests would be superior.

It was at Toyota that the well-known just-in-time approach to inventory management was developed and perfected. Implementing just-in-time required *kanban*, a simple system of colored paper cards that accompanied the parts as they progressed down the assembly line. *Kanban* eliminates inventory buildup by quickly telling the production personnel which parts are being used and which are not. The third pillar of the TPS was quality circles, groups of workers who discussed ways to improve the work process and make better cars. Finally, the entire system was based on *Jidoka*, which literally means "automation." As used at Toyota, however, the word expresses management's faith in the worker as a human being and a thinker.

A simple example illustrates the benefits of Toyota's system. Toyota dealerships found that customers kept returning their vehicles with leaking radiator hoses. When a team of workers at the US plant where the vehicle was made was asked to help find a solution, they found the problem was the clamp on the radiator hose. In assembly, the clamp is put over the hose, a pin on the side is pulled out, and the hose is secured. But sometimes the operator would

forget to pull out the pin. The hose would remain loose and would leak. The team installed a device next to the line that contains a funnel and electric eye. If a pin is not tossed into the funnel (passing the electric eye) every 60 seconds, the device senses that the operator must have forgotten to pull the pin and stops the line. As a result, a warranty problem at the dealerships was eliminated, customer dissatisfaction was reduced, and productivity was increased.

Nearly 50 years after the groundwork for the TPS was first laid, the results speak for themselves. Toyota's superior approach to manufacturing has been estimated to yield a cost advantage of \$600 to \$700 per car due to more efficient production, plus another \$300 savings per car because fewer defects mean less warranty repair work. Ohno's belief in flexible production can also be seen in the fact that Toyota's Sienna minivan is produced on the same assembly line in Georgetown, Kentucky, as the company's Camry models. The Sienna and Camry share the same basic chassis and 50 percent of their parts. Out of 300 different stations on the assembly line, Sienna models require different parts at only 26 stations. Toyota expects to build one Sienna for every three Camrys that come off the assembly line.

**Thinking Globally**

- 15-13. Chrysler engineers helped Toyota develop its Sienna minivan. In return, Toyota provided input on automobile production techniques to Chrysler. Why do you think Chrysler was willing to share its minivan know-how with a key competitor?
- 15-14. Considering financial, marketing, and human resource management issues, what other benefits do you think Toyota obtains from its production system?

Sources: Christoph Rauwald, "Toyota Loses Global Sales Crown to VW as US Trade Barriers Loom," *Automotive News* ([www.autonews.com](http://www.autonews.com)), January 30, 2017; Hiroaki Takeuchi, Eiji Osono, and Norihiko Shimizu, "The Contradictions That Drive Toyota's Success," *Harvard Business Review*, June 2008, pp. 96-104; David Welch, "What Could Dull Toyota's Edge," *Bloomberg Businessweek*, April 28, 2008, p. 38.

**MyLab Management**

**Reach every student by pairing this text with MyLab Management** MyLab is the teaching and learning platform that empowers you to reach every student.

By combining trusted author content with digital tools and a flexible platform, MyLab personalizes the learning experience and improves results for each student. Learn more about MyLab Management at [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management). This approach helps you reach students who have little international knowledge and experience.

**Deliver trusted content** You deserve teaching materials that meet your own high standards for your course. That's why we partner with highly respected authors to develop interactive content and course-specific resources that you can trust—and that keep your students engaged. This material piques student interest and engages them with abstract topics, such as the global monetary system.

**Empower each learner** Each student learns at a different pace. Personalized learning pinpoints

the precise areas where each student needs practice, giving all students the support they need—when and where they need it—to be successful. This strategy helps students master difficult concepts, such as foreign exchange rates.

**Teach your course your way** Your course is unique. So whether you'd like to build your own assignments, teach multiple sections, or set prerequisites, MyLab gives you the flexibility to easily create *your* course to fit *your* needs. You can teach chapters or individual modules in the order you prefer, for example, by covering global economic topics before teaching culture.

**Improve student results** When you teach with MyLab, student performance improves. That's why instructors have chosen MyLab for over 15 years, touching the lives of over 50 million students.

**Developing Employability Skills**

Some students enrolled in this course are majoring in international business or a related area. Other students are not business majors and are taking this course to gain insight into how businesses operate in the global economy today. Regardless of the chosen field of study, this course helps students develop

useful capabilities we call employability skills.

**Critical thinking** involves purposeful and goal-directed thinking used to define and solve problems, make decisions, or form judgments related to a set of circumstances. This textbook requires students to use critical thinking skills to, for example, study how a country designs its political, economic, and legal systems into a complex arrangement to achieve a specific set of priorities for the nation and its people.

**Business ethics and social responsibility** are sets of guiding principles that influence the way individuals and organizations behave within society. Throughout the book students encounter the issues of personal ethical responsibility and reasoning as they read how managers made ethical decisions under specific circumstances and how they fared.

**Communication skills** involve the use of oral, written, and nonverbal language, and technology to communicate ideas effectively and to listen effectively. This book teaches that articulating one's thoughts and ideas in another language and culture must be done to not offend other's values and beliefs. The reader will encounter many examples of appropriate communication and thoughtless communication.

**Knowledge application and analysis** refers to one's ability to learn a concept and appropriately apply that knowledge in another setting to achieve a higher level of understanding. Students will apply analytical reasoning and research skills in numerous assignments, projects, mini-cases, and, perhaps, the market entry strategy project developed for use with this textbook.

## Instructor Teaching Resources

This program comes with the following teaching resources.

<b>Supplements available to instructors</b> at <a href="http://www.pearsonhighered.com/irc">www.pearsonhighered.com/irc</a>	<b>Features of the Supplement</b>
<b>Instructor's Resource Manual</b> authored by John Capela from St. Joseph's College, New York	<ul style="list-style-type: none"> <li>• Chapter-by-chapter summaries</li> <li>• Examples and activities not in the main book</li> <li>• Learning outlines</li> <li>• Teaching tips</li> <li>• Solutions to all questions and problems in the book</li> </ul>
<b>Test Bank</b> authored by John Capela from St. Joseph's College, New York	<p>1600 multiple-choice, true/false, short-answer, and graphing questions with these annotations:</p> <ul style="list-style-type: none"> <li>• Difficulty level (1 for straight recall, 2 for some analysis, and 3 for complex analysis)</li> <li>• Answer</li> <li>• Skill</li> <li>• Learning outcome</li> <li>• AACSB learning standard (ethical understanding and reasoning; analytical thinking; information technology; diverse and multicultural work; reflective thinking; application of knowledge)</li> </ul>
<b>Computerized TestGen®</b>	<p>TestGen allows instructors to:</p> <ul style="list-style-type: none"> <li>• Customize, save, and generate classroom tests</li> <li>• Edit, add, or delete questions from the Test Item Files</li> <li>• Analyze test results</li> <li>• Organize a database of tests and student results</li> </ul>
<b>PowerPoints</b> authored by Carol Heeter from Ivy Tech Community College	<p>Slides include all the figures, tables, maps, and equations in the textbook.</p> <p>PowerPoints meet accessibility standards for students with disabilities. Features include, but not limited to:</p> <ul style="list-style-type: none"> <li>• Keyboard and screen reader access</li> <li>• Alternative text for images</li> <li>• High color contrast between background and foreground colors</li> </ul>



## Acknowledgments

We are grateful for the encouragement and suggestions provided by many instructors, professionals, and students in preparing this ninth edition of *International Business: The Challenges of Globalization*. We especially thank the following instructors who provided valuable feedback to improve this and previous editions:

Rob Abernathy	<i>University of North Carolina, Greensboro</i>
Hadi S. Alhorr	<i>Drake University</i>
Gary Anders	<i>Arizona State University West</i>
Madan Annavarjula	<i>Northern Illinois University</i>
Ogugua Anunoby	<i>Lincoln University</i>
Robert Armstrong	<i>University of North Alabama</i>
Wendell Armstrong	<i>Central Virginia Community College</i>
Mernoush Banton	<i>Florida International University</i>
George Barnes	<i>University of Texas at Dallas</i>
Constance Bates	<i>Florida International University</i>
Marca Marie Bear	<i>University of Tampa</i>
Leta Beard	<i>University of Washington, Washington</i>
Tope A. Bello	<i>East Carolina University</i>
Robert Blanchard	<i>Salem State College</i>
David Boggs	<i>Eastern Illinois University</i>
Chuck Bohleke	<i>Owens Community College</i>
Erin Boyer	<i>Central Piedmont Community College</i>
Todd Brachman	<i>Marquette University, Wisconsin</i>
Richard Brisebois	<i>Everglades University</i>
Bill Brunsen	<i>Eastern New Mexico at Portales</i>
Thierry Brusselle	<i>Chaffey College</i>
Mikelle Calhoun	<i>Ohio State University</i>
Martin Calkins	<i>Santa Clara University</i>
Lisa Cherivtch	<i>Oakton Community College</i>
Kenichiro Chinen	<i>California State University at Sacramento</i>
Joy Clark	<i>Auburn University–Montgomery</i>
Randy Cray	<i>University of Wisconsin at Stevens Point</i>
Tim Cunha	<i>Eastern New Mexico University at Portales</i>
Robert Engle	<i>Quinnipiac University</i>
Herbert B. Epstein	<i>University of Texas at Tyler</i>
Blair Farr	<i>Jarvis Christian College</i>
Stanley Flax	<i>St. Thomas University</i>
Ronelle Genser	<i>Devry University</i>
Carolina Gomez	<i>University of Houston</i>
Jorge A. Gonzalez	<i>University of Wisconsin at Milwaukee</i>
Andre Graves	<i>SUNY Buffalo</i>
Kenneth R. Gray	<i>Florida A&amp;M University</i>
James Gunn	<i>Berkeley College</i>
James Halteman	<i>Wheaton College</i>
Alan Hamlin	<i>Southern Utah University</i>

Dale Hartley	<i>Laramie County Community College</i>
Charles Harvey	<i>University of the West of England, UK</i>
M. Anaam Hashmi	<i>Minnesota State University at Mankato</i>
Les Jankovich	<i>San Jose State University</i>
R. Sitki Karahan	<i>Montana State University</i>
Bruce Keillor	<i>Youngstown State University</i>
Ken Kim	<i>University of Toledo</i>
Ki Hee Kim	<i>William Paterson University</i>
Anthony C. Koh	<i>University of Toledo</i>
Donald J. Kopka Jr.	<i>Towson University</i>
James S. Lawson Jr.	<i>Mississippi State University</i>
Ian Lee	<i>Carleton University</i>
Tomasz Lenartowicz	<i>Florida Atlantic University</i>
Joseph W. Leonard	<i>Miami University (Ohio)</i>
Antoinette Lloyd	<i>Virginia Union University</i>
Carol Lopilato	<i>California State University at Dominguez Hills</i>
Jennifer Malarski	<i>North Hennepin Community College</i>
Donna Weaver McCloskey	<i>Widener University</i>
James McFillen	<i>Bowling Green State University</i>
Mantha Vlahos Mehallis	<i>Florida Atlantic University</i>
John L. Moore	<i>Oregon Institute of Technology</i>
David Mosby	<i>University of Texas, Arlington</i>
Richard T. Mpoyi	<i>Middle Tennessee State University</i>
Tim Muth	<i>Florida Institute of Technology</i>
Christopher “Kit” Nagel	<i>Concordia University Irvine</i>
Rod Oglesby	<i>Southwest Baptist University</i>
Sam Okoroafo	<i>University of Toledo</i>
Patrick O’Leary	<i>St. Ambrose University</i>
Jaime Ortiz	<i>Texas International Education Consortium</i>
Yongson Paik	<i>Loyola Marymount University</i>
Thomas Passero	<i>Owens Community College</i>
Hui Pate	<i>Skyline College</i>
Clifford Perry	<i>Florida International University</i>
Susan Peterson	<i>Scottsdale Community College</i>
Janis Petronis	<i>Tarleton State University</i>
William Piper	<i>William Piedmont College</i>
Abe Qastin	<i>Lakeland College</i>
Krishnan Ramaya	<i>Pacific University of Oregon</i>
James Reinholdt	<i>University of Washington–Bothell</i>
Elva A. Resendez	<i>Texas A&amp;M University</i>
Nadine Russell	<i>Central Piedmont Community College</i>
C. Richard Scott	<i>Metropolitan State College of Denver</i>
Deepak Sethi	<i>Old Dominion University</i>
Charlie Shi	<i>Diablo Valley College</i>
Coral R. Snodgrass	<i>Canisius College</i>

Mark J. Snyder	<i>University of North Carolina</i>
Rajeev Sooreea	<i>Penn State—University Park</i>
John Stanbury	<i>George Mason University</i>
William A. Stoeber	<i>Seton Hall University</i>
Kenneth R. Tillery	<i>Middle Tennessee State University</i>
William Walker	<i>University of Houston</i>
Paula Weber	<i>St. Cloud State University</i>
James E. Welch	<i>Kentucky Wesleyan College</i>
Steve Werner	<i>University of Houston</i>
David C. Wyld	<i>Southeastern Louisiana University</i>
Robert Yamaguchi	<i>Fullerton College</i>
Bashar A. Zakaria	<i>California State University, Sacramento</i>
Man Zhang	<i>Bowling Green State University, Kentucky</i>

It takes a dedicated group of individuals to take a textbook from first draft to final manuscript. We thank our partners at Pearson for their tireless efforts in bringing the ninth edition of this book to fruition. Special thanks on this project go to Stephanie Wall, Editor-in-Chief; Neeraj Bhalla, Senior Sponsoring Editor; Melissa Feimer, Managing Producer, Business; Sugandh Juneja, Content Producer; Nicole Suddeth and Thomas Murphy, Project Managers, SPi Global; Roxanne McCarley, Vice President, Product Marketing; Becky Brown, Senior Product Marketer; Adam Goldstein, Manager of Field Marketing, Business Publishing; and Nicole Price, Field Marketing Manager.

# 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** 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 BBA, MS, and PhD degrees 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 business graduates of 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.

**Kenneth L. Wild** is affiliated with the University of London, England. He previously taught at Pennsylvania State University. He received his PhD from the University of Manchester (UMIST) in England and his BS and MS degrees from the University of Wisconsin. Dr. Wild also undertook postgraduate work at École des Affaires Internationales in Marseilles, France.

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.

# International Business

The Challenges of Globalization



## Chapter One

# Globalization

## Learning Objectives

After studying this chapter, you should be able to

- 1.1 Identify the types of companies active in international business.
- 1.2 Explain globalization and how it affects markets and production.
- 1.3 Detail the forces that drive globalization.
- 1.4 Outline the debate about globalization's impact on jobs and wages.
- 1.5 Summarize the debate about income inequality.
- 1.6 Outline the debate about culture, sovereignty, and the environment.
- 1.7 Identify how this course will help you to develop skills for your career.

## 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 about globalization in detail. This chapter closes by describing how this course can help develop your employability skills and by explaining a model of 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.

## MyLab Management

### ★ IMPROVE YOUR GRADE!

When you see this icon ★, visit [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) for activities that are applied, personalized, and offer immediate feedback.

## Apple's Global iMPact

CUPERTINO, California—The Apple ([www.apple.com](http://www.apple.com)) iPhone literally changed our world. Before the iPhone, people needed to carry cameras to take casual photos and needed a special device for viewing GPS maps. Today the business models of some firms, like transportation company Lyft, are based on the smartphone.

New applications (or apps) crop up daily, apps that expand the capabilities of the iPhone, iPad, iPod Touch, Apple Watch, and Apple TV. Apple's App Store boasts more than 2 million diverse offerings. 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 495 outlets in 18 countries and from its online store available in more than 40 countries. Today Apple generates around \$800 billion annually and is on track to an astonishing market valuation of \$1 trillion!

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 inputs there, such as labor.

A free hosting service called iTunes U, which Apple offers to colleges and universities, 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 to her favorite instructor. As you read this chapter, consider how globalization shapes our lives and alters the activities of international companies everywhere.<sup>1</sup>



Sergey Causelove/Shutterstock

Each of us experiences the results of international business transactions as we go about our daily routines. The General Electric ([www.ge.com](http://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](http://www.bbc.co.uk)). You slip on your Adidas sandals ([www.adidas.com](http://www.adidas.com)) that were made in *Indonesia*, an Abercrombie & Fitch T-shirt ([www.abercrombie.com](http://www.abercrombie.com)) made in the *Northern Mariana Islands*, and American Eagle jeans ([www.ae.com](http://www.ae.com)) made in *Mexico*. As you head out the door, you pull the battery charger off your Apple iPhone ([www.apple.com](http://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](http://www.hmmausa.com)) that was made in *Alabama*, grab your iPod, and play a song by the *English* band Coldplay ([www.coldplay.com](http://www.coldplay.com)). You drive to the local Starbucks ([www.starbucks.com](http://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 \$16.2 trillion and services worth \$4.7 trillion. This figure for merchandise exports is around 33 times the annual global revenue of Walmart Stores ([www.walmart.com](http://www.walmart.com)).<sup>2</sup>

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 might see globalization as an opportunity to source goods and services from lower-cost locations and to pry open new markets. An economist might see it as an opportunity to examine the impact of globalization on jobs and standards of living. An environmentalist might be concerned with how globalization affects our ecology. An anthropologist might want to examine the influence of globalization on the culture of a group of people. A political scientist might be concerned with the impact of globalization on the power of governments relative to that of multinational companies. And an employee might view globalization either as an opportunity for new work or as a threat to 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 increasingly exposes 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, which has been 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. The process of globalization is continuing despite a recent slowdown in some areas of international business activity.<sup>3</sup>

We begin this chapter 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 about globalization, including jobs, wages, inequality, culture, and more. Then, we describe employability skills this course can help you develop, such as critical thinking, ethics, communication, and knowledge application and analysis. 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.

## 1.1 Key Players in International Business

**1.1** Identify the types of companies active 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 might have dozens of factories located



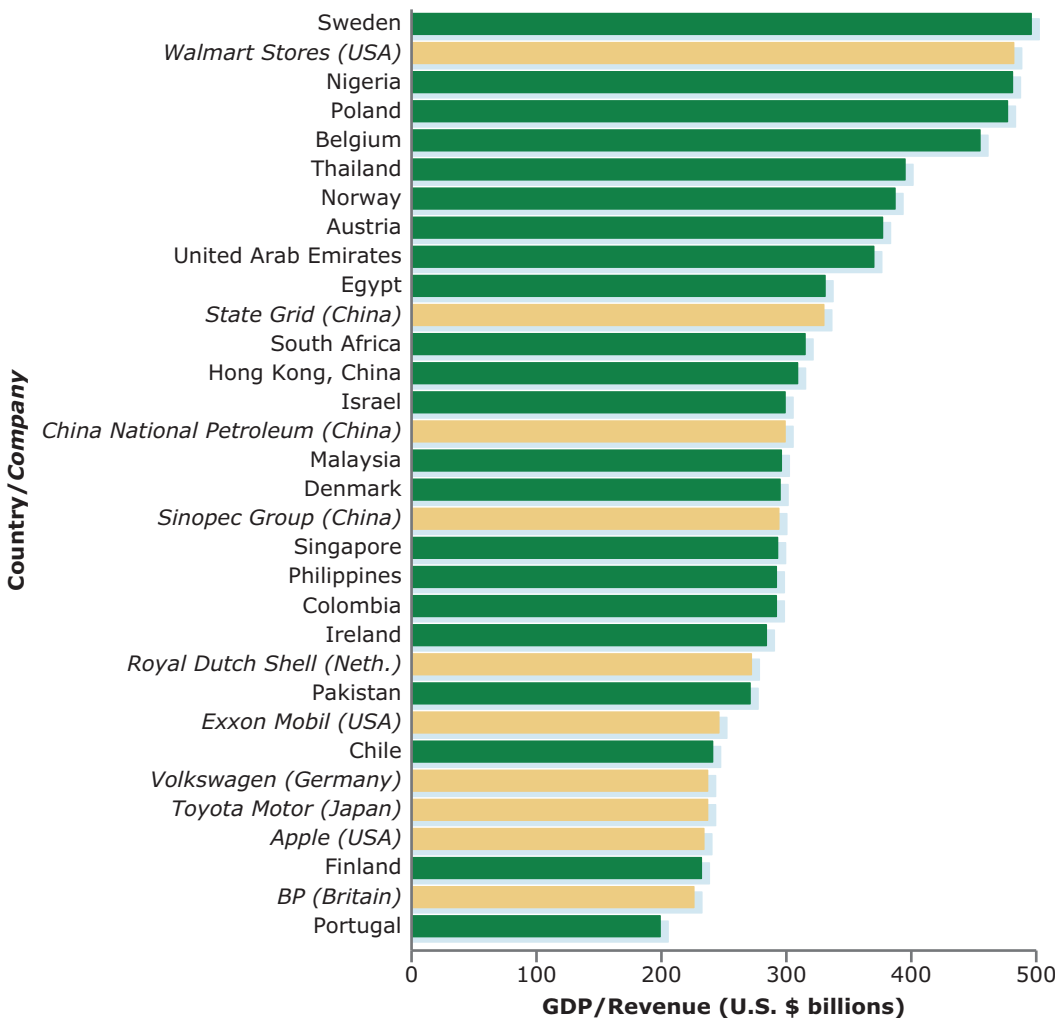
around the world. Large companies from the wealthiest nations still dominate international business. But firms from emerging markets (such as Brazil, China, India, and South Africa) now vigorously compete for global market share. Small and medium-sized companies are also increasingly active in international 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.

**multinational corporation (MNC)**  
Business that has direct investments abroad in multiple countries.

Some companies have more employees than the number of people living in many small countries and island nations. Walmart, for example, has 2.3 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](http://www.walmart.com)) were a country, it would weigh in as a rich nation and rank just one place behind Sweden. Even the \$21 billion in revenue generated by the 500th largest firm in the world, Old Mutual ([www.oldmutual.com](http://www.oldmutual.com)), exceeds the annual output of many countries.<sup>4</sup>



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

Source: Based on data obtained from “Fortune Global 500: The 500 Largest Corporations in the World,” ([www.fortune.com/global500](http://www.fortune.com/global500)), July 2016; World Bank data set ([www.data.worldbank.org](http://www.data.worldbank.org)).

**born global firm**

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

## 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. Born global firms tend to have *innovative* cultures and *knowledge-based* organizational capabilities. 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](http://www.vellus.com)) of Columbus, Ohio, makes and sells pet-grooming products. Some years ago, a dog breeder in Spain became Vellus's first distributor after the breeder received a request for more information about Vellus's products from a man in Bahrain. Sharon Kay Doherty, president of Vellus, says she was stunned that she could so easily process a transaction with someone so far away. Today Vellus has distributors in 35 countries. It is a truly born global business in that, soon after going international, Vellus earned more than half its revenues from international sales.<sup>5</sup>

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](http://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.<sup>6</sup> For additional insights into how small and large companies alike succeed in international markets, see the Manager's Briefcase, titled "The Keys to Global Success."

### 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 the form of marketing or manufacturing subsidiaries) abroad 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*?

## MANAGER'S BRIEFCASE

### The Keys to Global Success

Making everything from 99-cent hamburgers (McDonald's) to \$150 million jumbo jets (Boeing), managers of global companies must overcome obstacles when competing in unfamiliar markets. Global managers acknowledge certain common threads in their approaches to management and offer the following advice:

- **Communicate Effectively** Cultural differences in business relationships and etiquette are central to global business and require cross-cultural competency. Effective global managers welcome uniqueness and ambiguity while demonstrating flexibility, respect, and empathy.
- **Know the Customer** Successful managers understand how a company's different products serve the needs of international customers. Then, they ensure that the company remains flexible and capable enough to customize products that meet those needs.
- **Emphasize Global Awareness** Good global managers integrate foreign markets into business strategy from the outset. They ensure that products and services are designed and built with global markets in mind, and not used as dumping grounds for the home market's outdated products.
- **Market Effectively** The world will beat a path to your door to buy your "better mousetrap" only if it knows about it. A poor marketing effort can cause great products to fade into obscurity while an international marketing blunder can bring unwanted media attention. Top global managers match quality products with excellent marketing.
- **Monitor Global Markets** Successful managers keep a watchful eye on business environments for shifting political, legal, and socioeconomic conditions. They make obtaining accurate information a top priority.



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, and is now a modern, cosmopolitan district. How has globalization changed the economic landscape of your city and state?

Amanda Hall/Robertharding/Alamy Stock Photo

## 1.2 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. The first age of globalization extended from the mid-1800s to the 1920s.<sup>7</sup> 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.<sup>8</sup> Other than in wartime, nations did not even require passports for international travel before 1914. Like today, workers in wealthy nations feared they might lose their jobs to workers living in other 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 the first age of globalization included the steamship, telegraph, railroad, and, later, the telephone and airplane.

The first age of globalization was halted abruptly 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

**1.2** Explain globalization and how it affects markets and production.

### globalization

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

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 occurs in many product categories, including consumer goods, industrial products, and business services. Clothing retailer L.L. Bean ([www.llbean.com](http://www.llbean.com)), shoe producer Nike ([www.nike.com](http://www.nike.com)), and electronics maker Vizio ([www.vizio.com](http://www.vizio.com)) are just three 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.

**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 700 million Internet users, which is greater than the population of the entire United States. As time goes on, more and more people in China 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 might 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](http://www.cocacola.com)) sweetens its traditional formula to compete with the sweeter-tasting Pepsi ([www.pepsi.com](http://www.pepsi.com)). In India, where cows are sacred and the consumption of beef is taboo, McDonald's ([www.mcdonalds.com](http://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 people for **sustainability**—development that meets the needs of the present without compromising the ability of future generations to meet their own needs.<sup>9</sup> Most companies today operate in an environment of increased transparency and scrutiny regarding their business

#### 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 7.5 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:* Wang Wen, "Emerging Markets are Set to Lead Globalisation," *Financial Times* (www.ft.com), April 10, 2017; 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).

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.<sup>10</sup> To read more about the call for more sustainable business practices, see the Global Sustainability feature, "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 are lower. Many European and US 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