

Multinational Management

A STRATEGIC APPROACH



John B. **Cullen**

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6e

multinational **management**

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To les deux
J & J
and
to Kyong, Alisha, and Davin

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Defining the nature of today's business are the globalization of markets, financial institutions, and companies; the growing importance of the emerging markets of Brazil, China, India, and Russia (the BRIC markets) and other markets in the continent of Africa; and the global impact of financial crises, wars, terrorism, and even disease. Developing and making strategic choices are the mainstays of successful decision making in this increasingly complex global environment. To help students develop the essential skills needed to formulate and implement successful strategic moves in the new competitive and interlaced global environment, this sixth edition of *Multinational Management: A Strategic Approach* continues its tradition of providing a thorough review and analysis of the latest research on international management. In addition, by using a strategic perspective as a unifying theme to explore the global economy and the impact of managerial decisions, we bring a distinctive method to the teaching and learning of international management. This text was the first international management text to use this critical emphasis on strategic decision making as the cornerstone of its approach, and each subsequent edition has built on this tradition.

After reading this text, students will understand that successful multinational managers view the world as an integrated market where competition and collaboration evolve from almost anywhere and anyone. At the same time, these future managers must appreciate the wide array of differences that exist in cultures and social institutions. This text considers how cultural differences affect strategies and operations and gives the student an appreciation of how social institutions such as the economic system, the polity, the educational system, and religion play an important role in any multinational operation. As such, the reader is not limited to understanding multinational management from the perspective of any one nation or group.

New to This Edition

The entire text has been updated to reflect current research and examples from the field of international management. All chapters have new boxed features to reflect the latest trends. Additionally, most of the statistics reported in the chapters reflect the latest numbers. Many of the updates pertain to the opportunities presented by the emerging markets such as Brazil, China, India, and Russia, and the text recognizes the emergence of the class of emerging market competitors. Furthermore, the text recognizes the impressive progress made by nations in the African continent. It also acknowledges the growth of state-owned enterprises. Finally, chapters were written keeping in mind the current economic crisis, while acknowledging that, as most experts predict, emerging markets will recover much more quickly than developed nations.

Among many changes, some specific revisions to the text material include the following:

New Cases

All chapters and each major section of the text have their own cases with specific case-based discussion questions. Around 30 percent of the cases are new to this edition. Case topics reflect the current global environment and cover most of the world's continents.

Preface

- Some cases pertain to companies operating in the world's biggest as well as emerging markets, such as India, China, and Malaysia. One case deals with Tata Motors in India, providing valuable insights into the Indian markets and the emergence of this potential world competitor.
- Cases include companies in the Czech Republic and Poland to reflect the challenges faced as these countries transition to market-based economies.
- Cases on Asian economies, such as South Korea and Japan, illustrate some of the difficulties encountered as these countries deal with an environment that is counter to collectivist values.
- The case on Kimberly-Clark in Latin American illustrates some of the unique challenges multinationals experience in this region of the world.
- Other cases, such as Google in China and Alibaba versus Yahoo, reflect some of the challenges and the opportunities of e-commerce strategies.
- Many new cases on international ethics and corporate social responsibility (e.g., Yahoo and Customer Privacy, Procter and Gamble and Safe Drinking Water, Micro-credit in Armenia) have been added to reflect the increasingly crucial importance of this area.
- The text now features a new case on the Middle East to reflect the growing importance of the region to global trade. Case material pertaining to Nigeria has also been included.
- Case material on Europe and Canada show that these places also represent particular difficulties for multinationals.

New Topical Areas

All chapters include the latest developments in the international management field.

- **Chapter 1—*Multinational Management in a Changing World*** has been thoroughly updated to reflect the latest trends in the field. A significant emphasis in the chapter pertains to the emergence of powerful new competitors from emerging markets. The chapter details the reasons why these new competitors are emerging and how they are drastically influencing strategies of the well-established multinationals. The chapter also recognizes the growing emergence of state-owned companies and their influence on the global business environment.
- **Chapter 2—*Culture and Multinational Management*** has been updated and remains one of the most balanced presentations of culture, including the popular Hofstede framework and the most recent GLOBE framework. The implications of each cultural dimension for management functions such as leadership styles, HRM, etc., are clearly summarized through figures. Readers are also alerted to the dangers of relying too much on culture.
- **Chapter 3—*The Institutional Context of Multinational Management*** has been updated and now emphasizes important information on social inequality and its impact on multinational management. The chapter also presents a balanced overview of the world's main religions, underscoring the importance of religion to the global business environment.
- **Chapter 6—*Multinational and Entry-mode Strategies: Content and Formulation*** now emphasizes the section on political risk and what companies can do to mitigate

it. The chapter includes more discussion of the new emerging market competitors.

- **Chapter 7—*Small Businesses and International Entrepreneurship*** has also been updated to reflect the sustained importance of the topic to international management. Students will read about potential barriers faced by small businesses as they go global. However, the chapter also discusses the many benefits small businesses may gain by going international. This text remains one of the few on the market to acknowledge the growing importance of international entrepreneurship.
- **Chapter 8—*Organizational Designs for Multinational Companies*** continues the extensive discussion of knowledge management, adding a timely and interesting topic to the traditional discussion of multinational organizational structures. This reflects the growing importance to multinationals of knowledge management systems.
- **Chapter 10—*Multinational E-Commerce: Strategies and Structures*** is included in this sixth edition making it one of the only texts with a chapter on this important topic. More detail is now provided on the growing importance of multinational e-commerce security and the many aspects of IT security. The latest figures and statistics on e-commerce are discussed providing evidence of the sustained growth of the sector.
- **Chapters 11 and 12—*International Human Resource Management*** continues the strong tradition of considering human resource management issues for both expatriates and other employees. Special emphasis is placed on emerging markets and the more sustained difficulty of finding and retaining qualified workers.
- **Chapter 15—*Leadership and Management Behavior in Multinational Companies*** continues the examination of leadership in a global context and integrates the latest GLOBE research on leadership in over 60 nations.

Current Data

All chapters have been updated to include the latest research, examples, and statistics in multinational management, creating the most accurate and current presentation possible:

- Current multinational management examples in the Case in Point and other chapter features, including Multinational Management Briefs, Multinational Management Challenges, and Multinational Management Skill Builders.
- Updated tables and figures using recent findings on multinational leadership from *GLOBE: The Global Leadership and Organizational Behavior Effectiveness Research Program*.
- Updated tables and figures using recent findings on organizational behavior issues from the *World Values Survey* and the *International Social Survey Program*.
- Updated tables and figures using recent publications from the latest World Bank's *World Trade Report*, other critical information from the United Nations Conference on Trade and Development (UNCTAD), and the United Nation's *World Investment Report*.
- Prepublication information from the authors' own research on the effects of social institutions on work values and international recruiting.
- A large selection of new cases.

Pedagogical Approach

In addition to providing a thorough review and analysis of multinational management, *Multinational Management: A Strategic Approach*, sixth edition, includes several unique pedagogical learning tools:

- **Strategic viewpoint:** This viewpoint provides a unifying theme that guides the reader through the material. It highlights for students the process that multinational companies engage in when deciding to compete in the global economy and the management consequences of these strategic choices.
- **Comparative management issues:** Multinational managers must understand the strengths, weaknesses, and strategies of competitors from anywhere in the world. In addition, they must know when and how to adapt their organizational practices to accommodate local situations. Where relevant, the comparative sections of the text assist students in understanding the complexities of the cultures and business practices of other nations.
- **Review of management principles:** The text contains several chapters that assume some background knowledge in management, specifically strategic management, organizational design, human resource management, and organizational behavior. For students with limited previous coursework in management, or for those who need a review, each chapter provides background primers with brief explanations of key concepts and ideas.
- **Small business and entrepreneurship applications:** Unlike most international management texts, this book explains the multinational activities of small businesses. An entire chapter focuses specifically on the problems and prospects for entrepreneurs and small businesses looking to become multinational competitors.
- **Application based:** Each chapter gives the learner three different opportunities to apply the knowledge gained from reading the chapter: Multinational Management Skill Builders, chapter Internet Activities (located on the book's website, www.cengage.com/management/cullen), and end-of-chapter cases. These exercises simulate the challenges that practicing multinational managers encounter on the job.

Key Features

- **Chapter Cases and Multinational Management Skill Builders:** End-of-chapter projects include cases and activities, which give the learner the opportunity to apply the text material to real-life managerial problems.
- **Multinational Management Internet Exercise:** For this sixth edition, we have added a new feature to take advantage of the wealth of resources available on the Internet. For each chapter, students will now have the option of researching a website relevant to the chapter and reporting the latest findings to the class. This will encourage students to explore the wealth of resources on the Web while at the same time learning about the most recent data.
- **Integrating Cases:** Each major section offers at least one full-length case that requires the integration of material from all preceding chapters. These cases were chosen to challenge the reader with the complexities of the global environment.

- **Extensive examples:** Throughout the text, many examples enhance the text material by showing actual multinational management situations. These examples are illustrated in six different formats:
 - *Preview Case in Point:* These brief cases open each chapter and focus the reader's interest on the chapter content.
 - *Focus on Emerging Markets:* This edition strengthens a feature that was introduced in the fourth edition focusing on the growing importance of the BRIC emerging markets in Asia, Latin America, and Europe. Each chapter discusses the many opportunities and threats presented by emerging markets in the context of the chapter. Furthermore, many of these examples emphasize the two dominant emerging markets, India and China.
 - *Case in Point:* These real-life examples of multinational companies discuss relevant topics in each chapter.
 - *Multinational Management Challenge:* These cases explore challenging situations faced by multinational managers in actual companies and situations.
 - *Multinational Management Brief:* Brief examples elaborate on an issue discussed in the text.
 - *Comparative Management Brief:* These examples show how a unique cultural or social institutional setting can influence management decisions.
- **Models as examples:** The authors created numerous models to act as visual aids for students as they study key principles.
- **Learning aids:** The Multinational Management Electronic Study Tools for students, product support website, and supporting video make learning easy and fun while exposing the learner to the complex issues of multinational management. In addition, included on the product support website are Internet Activities that challenge students to use Internet resources in locating international business information. The Web site also contains an extensive selection of Internet links to resources and information that are updated regularly.

Contents

The text is structured into five major parts. Part One is divided into four chapters: three introductory chapters that provide essential background on the nature of multinational management and a fourth on international ethics. These chapters address the challenges facing managers in the new global economy, how national cultures affect management, the institutional context of multinational companies, and the ethical challenges these firms encounter.

Part Two includes three chapters that review how multinational companies formulate successful strategies to compete internationally. Chapter 5 provides a broad overview of strategic management with global implications. Chapter 6 focuses on the strategies required to “go international.” Chapter 7 applies the concepts from the previous two chapters to the unique problems faced by small, entrepreneurial organizations.

Part Three addresses the management systems used to implement multinational strategies. Specifically, Chapter 8 considers how multinational companies design and structure their organizations to implement their strategies. Chapter 9 examines the management and design issues involved in building global strategic alliances. Chapter 10 considers how companies can use e-commerce in multinational operations.

Part Four contains two chapters dealing with the human resource management issues related to implementing strategy. Topics considered include international human resource practices and the adaptation of these practices across cultures.

Finally, Part Five continues to examine strategy implementation at the level of the individual in the organization. Chapters consider international negotiation and cross-cultural communication, motivating people in different nations, and leadership challenges in multinational companies.

Ancillary Materials

Multinational Management: A Strategic Approach, sixth edition, offers a highly intensive learning and teaching package of ancillary tools for both students and instructors. These supplements give students and instructors many options for learning and teaching.

- **Website:** Visitors to the website (www.cengagebrain.com) will find these teaching ancillaries available for download in the password-protected Instructor Resources section. The student companion website provides key instructional materials, and a Premium Website for students features additional Internet-based learning activities related to international business for each chapter.

Accessing CengageBrain

1. Use your browser to go to www.CengageBrain.com.
2. The first time you go to the site, you will need to register. It's free. Click on "Sign Up" in the top right corner of the page and fill out the registration information. (After you have signed in once, whenever you return to CengageBrain, you will enter the user name and password you have chosen and you will be taken directly to the companion site for your book.)
3. Once you have registered and logged in for the first time, go to the "Search for Books or Materials" bar and enter the author or ISBN for your textbook. When the title of your text appears, click on it and you will be taken to the companion site. There you can choose among the various folders provided on the Student side of the site. NOTE: If you are currently using more than one Cengage textbook, the same user name and password will give you access to all the companion sites for your Cengage titles. After you have entered the information for each title, all the titles you are using will appear listed in the pull-down menu in the "Search for Books or Materials" bar. Whenever you return to CengageBrain, you can click on the title of the site you wish to visit and go directly there.

For Instructors

- **Instructor's Manual:** The Instructor's Manual offers instructional materials, case solutions, and questions. For this sixth edition, we continue to provide case solutions for each chapter in a consistent format. Instructors are provided with a list of suggested questions and solutions, along with a synopsis and case objectives that show the academic value of each case.
- **PowerPoint® Slide Presentations:** The authors have created more than 450 slides illustrating the concepts of each chapter.

- **ExamView:** ExamView Computerized Testing Software, located on the Instructor's Resource CD-ROM, contains all of the questions in the test bank, which are available on the instructor's companion website. This program is easy-to-use test creation software, compatible with Microsoft Windows. Instructors can add or edit questions, instructions, and answers, and select questions by previewing them on the screen, selecting them randomly, or selecting them by number.
- **Instructor's Resource CD-ROM:** This CD-ROM includes the key instructor support materials—Instructor's Manual, ExamView Test Bank, and PowerPoint® Slides—and provides instructors with a comprehensive capability for customizing lectures and presentations.
- **DVD:** The DVD to accompany *Multinational Management: A Strategic Approach*, sixth edition, offers video clips featuring real-world companies and illustrating the international business concepts outlined in the text. Focusing on both small and large businesses, the video clips help students apply the theories presented in the book to actual situations and issues that global corporations face. A set of video case-based discussion questions and answers are included in the Instructor's Manual.

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multinational **management**

A Strategic Approach **6e**

Foundations of Multinational Management

part one



chapter 1
Multinational Management
in a Changing World

chapter 2
Culture and Multinational
Management

chapter 3
The Institutional Context of
Multinational Management

chapter 4
Managing Ethical and Social
Responsibility Challenges in
Multinational Companies

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1

Multinational Management in a Changing World

Learning Objectives

After reading this chapter you should be able to:

- Define multinational management.
- Understand the characteristics of a multinational company.
- Understand the nature of the global economy and the key forces that drive globalization.
- Know the basic classification of the world's economies.
- Identify the characteristics of the next generation of multinational managers.

Preview CASE IN POINT

Emerging Market Multinationals

The latest trend in global business is the rise of new multinationals hailing from emerging markets such as India, China, Brazil, and Russia. Furthermore, successful companies are also emerging from African nations. These new multinationals are using innovative strategies to compete effectively with their established counterparts from developed countries. Often, these emerging market multinationals use their local markets for testing before deploying their products to Western markets.

Take the cases of companies based in India and South America. For example, in 2008, Tata Motors, one of India's biggest industrial conglomerates, acquired the British automakers Jaguar and Land Rover and began developing cars for these prestigious companies. Moreover, the world's leading maker of regional jets is based in Brazil. Embraer, a Brazilian company, has taken advantage of its local engineering experience to innovate at a global level. It now manufactures small, sleek, fast jets for the international market.

Multinationals from developed nations are also paying attention to emerging companies from China and Mexico. For example, Chery International, China's leading car exporter, has plans to build plants in the Middle East, Africa, and Eastern Europe. Furthermore, collectively, the leading exporters of cars in China exported almost 900,000 cars in 2011. Cemex, one of the world's largest suppliers of cement, is based in Mexico, and has improved on its local business model to go international.

Recent trends also suggest that new multinationals are emerging in Africa. Safaricom, Kenya's most popular mobile phone company, listed its shares on the Nairobi Stock Exchange and was able to raise over \$800 million in one of the biggest initial public offerings in sub-Saharan Africa. In fact, Kenya is fast becoming the African tech hub; hundreds of start-ups have sprung up there over the past few years. Furthermore, companies such as Celtel are banking on Africa's thirst for mobile phones.

The overwhelming agreement among experts is that emerging market countries and their multinationals have already become, or

are expected to become, major players in world trade. Such trends are dramatically changing the environmental landscape for established Western multinationals.

Sources: Based on Economist. 2012. "Still in second gear." May 5, 62–63; Economist. 2012. "Upwardly mobile." August 25, 53–54; Economist. 2008. "The new champions." September 20, 53; Economist. 2008. "The challengers—Emerging market multinationals." January 12, 61; *Mo, I.* 2012. "Celtel's founder on building a business on the world's poorest continent." Harvard Business Review, October, 41–44.

As the examples in the Preview Case in Point show, businesses and individuals, whether from the old or the new economy, increasingly see the entire world as a source of business opportunities. The world is becoming one interconnected economy in which companies conduct business and compete anywhere and with anyone, regardless of national boundaries. New multinationals with the clout to compete effectively against established multinationals are emerging worldwide. In a global economy, any company or individual from any country can become a competitor. The Internet crosses national boundaries with the click of a mouse, allowing even the smallest businesses to go global immediately. Consequently, companies can no longer afford the luxury of assuming that success in their home markets equates to long-term profitability—or even survival. Furthermore, although the integrated global economy presents challenges and threats such as terrorism, war, and recession, it also presents significant opportunities for most companies. Consider the next Focus on Emerging Markets.

What does this trend mean to the student of international business? With companies increasingly looking at global rather than domestic markets, managers will

Focus on Emerging Markets

Growing Opportunities

As mentioned in the Preview Case in Point, emerging markets are providing the base for the development of a new breed of powerful competitors. However, emerging markets also provide established companies with significant opportunities. As of 2012, while much of the developed world reeled from the economic recession, emerging markets were proving able to weather the storm better. The ability to grow despite the recession has largely been due to healthy demand in local markets. For example, although car sales in the developed markets fell during the recession, they increased significantly in China. China is now the world's largest market for cars, with sales of 18.5 million cars, compared to only 13.1 million in the United States.

Such upward trends are likely to continue. In fact, while recent data show a slowdown in the growth of emerging markets, they are still experiencing much more robust growth than Western countries. Goldman Sachs estimates that the global middle class is growing by over 70 million a year, and it is expected to continue growing. By 2030, experts predict that over two billion people will have joined the middle class worldwide. Such trends suggest tremendous opportunities for multinationals.

Sources: Economist. 2008. "The new champions." September 20, 53; Economist. 2009. "Not so Nano; Emerging market multinationals." March 28, 20–21. Economist. 2012. "Still in second gear." May 5, 62–63; Economist. 2012. "Dream on?" July 21, 59–60.

Multinational management

The formulation of strategies and the design of management systems that successfully take advantage of international opportunities and that respond to international threats.

have little choice in the future but to be multinational in their outlook and strategies. Consequently, all students of business should have at least a basic background in multinational management. **Multinational management** is the formulation of strategies and the design of management systems that successfully take advantage of international opportunities and respond to international threats. Successful multinational managers are executives with the ability and motivation to meet and beat the challenges of multinational management.

To provide you with a basic background in multinational management, this book introduces you to the latest information on how managers throughout the world respond to the challenges of globalization. You will see how businesses, both large and small, deal with the complexities of national differences in cultures, economies, and political systems. You will learn how multinational managers use their understanding of these national differences to formulate strategies to maximize their companies' success in globalizing industries. But, because having good strategies is not enough to succeed in today's economy, you will learn how multinational managers carry out their global strategies.

To give you insights into the real world of multinational management, you will find several features in this and the following chapters.

- The *Preview Case in Point* shows you examples of how multinational companies deal with a key issue discussed in the chapter.
- *Cases in Point* give information on how multinational companies handle other issues raised in the course of the chapter.
- *Multinational Management Briefs* provide further details and examples that extend the discussion.
- *Multinational Management Challenges* describe problems and dilemmas that real multinational managers face, and for which there are no easy answers.
- *Comparative Management Briefs* provide examples of management issues that are influenced by a unique cultural or social institutional setting.
- Finally, the *Focus on Emerging Markets* feature reflects the sustained importance of emerging markets in world trade.

Multinational management takes place within the multinational company. But what exactly is a multinational company? The next section gives a definition and brief introduction to the major players in multinational competition.

The Nature of the Multinational Company

The **multinational company (MNC)** is broadly defined as any company that engages in business functions beyond its domestic borders. This definition includes all types of companies, large and small, that engage in international business. Most MNCs, however, are multinational corporations; that is, the companies are publicly owned through stocks. Usually, when you see references to MNCs in the popular business press, the reference is to multinational corporations. The largest multinationals are all public corporations.

Exhibit 1.1 lists the top 20 multinational corporations ranked by sales revenue. As the exhibit shows, many of the largest corporations are in the petroleum industry—not surprisingly, given the continuous increase in oil prices. However, out of the top 10 companies, some are automotive companies and big *consumers* of the oil industry. Wal-Mart is the only retailer, and a few of the remaining

Multinational company (MNC)

Any company that engages in business functions beyond its domestic borders.

EXHIBIT 1.1 Largest Companies in the World

Rank	Company	Industry	Headquarters Country	Revenues (US\$ million)
1	Royal Dutch Shell	Petroleum	Netherlands	484,489
2	Exxon Mobil	Petroleum	USA	452,926
3	Wal-Mart Stores	Retailing	USA	446,960
4	BP	Petroleum	UK	386,463
5	Sinopec Group	Petroleum	China	375,214
6	China National Petroleum	Petroleum	China	352,338
7	State Grid	Power Supply	China	259,142
8	Chevron	Petroleum	USA	245,621
9	ConocoPhillips	Petroleum	USA	237,272
10	Toyota Motor	Automotive	Japan	253,364
11	Total	Petroleum	USA	231,580
12	Volkswagen	Automotive	Germany	221,551
13	Japan Post Holdings	Finance	Japan	211,019
14	Glencore International	Manufacturing	Switzerland	186,152
15	Gazprom	Petroleum	Russia	157,831
16	E.On	Energy	U.K.	157,057
17	ENI	Petroleum	Italy	153,676
18	ING Group	Insurance	USA	150,571
19	General Motors	Automotive	USA	150,276
20	Samsung Electronics	Electronics	South Korea	148,944

Source: Adapted from Fortune 2012. "Fortune Global 500." <http://www.fortune.com/fortune/global500>.

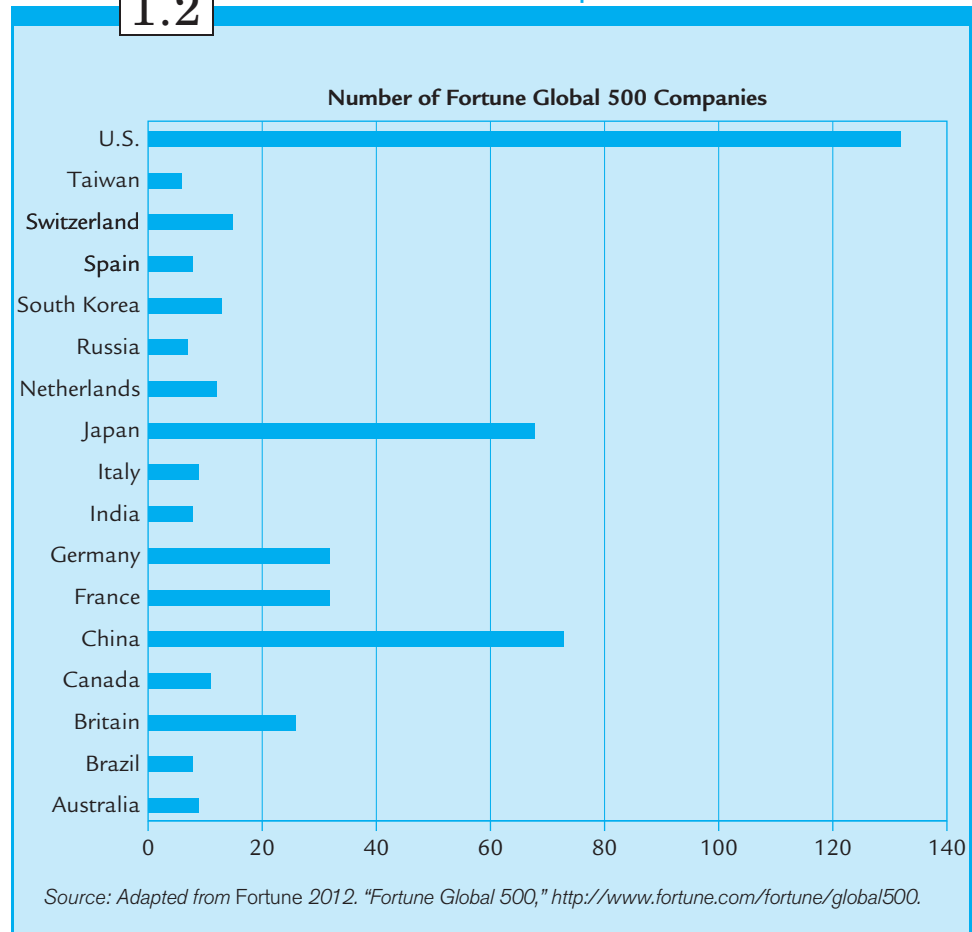
companies are from the financial and insurance industries. However, it is also important to note that not all top-20 companies are from Western countries. For example, the companies ranked fifth (Sinopec) and sixth (China National Petroleum) are both Chinese multinationals. Furthermore, the list also includes previously unknown multinationals such as E.On and ENI.

Where are most of the global multinationals located? Exhibit 1.2 lists selected countries with higher numbers of Fortune Global 500 companies. As you can see, global multinationals are concentrated not just in major Western cities. Prominent new competitors can be found in countries such as China, South Korea, Brazil, and Mexico. As of 2012, the United States had about 132 global multinationals, with China having the next highest number at 73. This is in sharp contrast to the situation in 2008, when the United States had 153 global multinationals and Japan had 64, the second-highest number. Such trends show the impressive growth of companies from emerging markets such as Brazil (8 global multinationals), Russia (7 global multinationals) India (8 global multinationals), and China (73 global multinationals). This exhibit also shows that global companies can be located anywhere in the world and are not confined to European or U.S. cities.

What kinds of business activities might make a company multinational? The most apparent activity, of course, is international sales. When a company produces in its own country and sells in another country, it engages in the simplest form of multinational activity. However, as you will see in much more detail, crossing national borders opens up more options than simply selling internationally.

To introduce some of these options, consider the following hypothetical U.S. company that produces and sells men's shirts. As a domestic-only company,

EXHIBIT 1.2 Locations of Global 500 Companies



it could buy the dye, make the fabric, cut and sew the garment, and sell the shirt, all in the United States. However, the firm might not be able to compete successfully using this approach. The U.S. market might be stagnant, with competitive pricing and decreased profit margins. Competitors might find higher-quality fabric or dye from overseas suppliers. Competitors might also find lower production costs in low-wage countries, allowing them to offer lower prices. What can this company do?

As a multinational company, the firm might sell its shirts to overseas buyers with less competition and at higher prices. Several other multinational activities might also increase its competitive strength. For example, the shirt maker might locate any of the steps in obtaining raw materials or completing production in another country. It might buy the highest-quality dye from Italy; use low-cost, high-quality fabric producers in Hong Kong; and have the cutting and sewing done in Vietnam, with its very low labor costs. For any of these steps, the company might contract with local companies in another country, or it may own its own factories in the other country. As you will see in later chapters, MNCs must develop strategies and systems to accomplish all or some of the multinational business tasks of this hypothetical U.S. firm.

Next, we will consider the forces that drive the new economic reality that faces the next generation of multinational managers and MNCs.

The Globalizing Economy: A Changing (but Not Always Stable) Environment for Business

Trade barriers are falling, and in the first decade of this century, world trade among countries in goods and services grew faster than domestic production. Money is flowing more freely across national borders, allowing companies to seek the best rates for financing—and allowing investors to look for the best returns—anywhere in the world. All of these processes, known as **globalization**, represent the trend whereby the world's economies are becoming borderless and interlinked. Companies are no longer limited by their domestic boundaries and may conduct any kind of business activity anywhere in the world. Globalization means that companies are more likely to compete anywhere, source their raw material or research and development (R&D) anywhere, and produce their products anywhere.

Globalization, however, is not a uniform evolutionary process, and not all economies of the world are benefiting or participating equally in it. Terrorism, wars, and at times a worldwide economic stagnation have limited or in some cases even reversed some aspects of globalization. Additionally, globalization is producing such worrisome effects as natural resource scarcity, environmental pollution, negative social impacts, and increased interdependence of the world's economies.¹ Furthermore, some even argue that globalization is widening the gap between rich and poor countries.

However, others see globalization as beneficial to the world's economies. For instance, globalization is resulting in lower prices in many countries as multinationals become more efficient. Lower prices give consumers more for their money while encouraging local productivity through competition.² Furthermore, globalization is clearly benefiting many emerging markets such as India and China because these countries enjoy greater availability of jobs and better access to technology. Globalization has been the major reason why many new companies from countries such as Mexico, Brazil, China, India, and South Korea are among the new dominant global competitors.

Several key trends drive the globalization of the world economy, and in turn—even with shakeups to the world economy—force businesses to become more multinational to survive and prosper. Some of the most important trends include falling borders, growing cross-border trade and investment, the rise of global products and global customers, the growing use of the Internet and sophisticated information technology (IT), privatizations of formerly government-owned companies, the emergence of new competitors in the world market, and the rise of global standards for quality and production.

Before discussing the key globalization trends that affect multinational managers and their companies, it is useful to look at some commonly used classifications of the world's countries. The classifications roughly indicate a country's GDP and its growth in GDP. The classifications are not exact, but they simplify discussions of world trade and investments.

Countries of the World: The Arrived, the Coming, and the Struggling

Exhibit 1.3 shows some divisions of the world's economies based roughly on classifications used by the United Nations and the *Economist*. **Developed countries** have mature economies with substantial per-capita GDPs and international trade and investments. **Developing countries**, such as Hong Kong, Singapore, and Taiwan, have economies that have grown extensively over the past two decades, yet have sometimes struggled, especially during the setbacks of the Asian crisis in the late

Globalization

The worldwide trend of cross-border economic integration that allows businesses to expand beyond their domestic boundaries.

Developed countries

Countries with mature economies, high GDPs, and high levels of trade and investment.

Developing countries

Countries with economies that have grown extensively in the past two decades.

EXHIBIT 1.3 Selected Economies of the World

Developed Economies	Developing Economies	Transition Economies	Emerging Markets
Australia	Hong Kong	Czech Republic	Argentina
Austria	Singapore	Hungary	Brazil
Belgium	Taiwan	Poland	China
Britain	Malaysia	Russia	Chile
Canada	Indonesia		Colombia
Denmark	Thailand		India
France			Malaysia
Germany			Mexico
Italy			Philippines
Ireland			South Africa
Japan			South Korea
Netherlands			Turkey
Spain			Venezuela
Sweden			
Switzerland			
United States			

Sources: Adapted from Economist. 2003. "Markets and data, weekly indicators." <http://www.economist.com>, June 7; Economist. 2006. "Emerging markets and interest rates." August 5, 65; Economist. 2012. "Dream on?" July 21, 59–60.

Transition economies

Countries in the process of changing from government-controlled economic systems to free market or capitalistic systems.

1990s. Other economies to watch are what the UN calls the **transition economies** of Central and Eastern Europe, such as the Czech Republic, Hungary, Poland, and Russia. Transition economies are countries that have changed from government-controlled, mostly Communist, economic systems to free market or capitalistic systems. The former systems relied on state-controlled organizations and centralized government control to run the economy. In the transition to free market and capitalistic systems, many government-owned companies were converted to private ownership. From that point, the market, not the government, determined the success of companies. Several of these transition economies, such as Hungary, Poland, Slovakia, and the Czech Republic, have developed market economies and are now members of the European Union (EU).

Emerging markets

Countries that are currently between developed and developing countries and are rapidly growing.

Finally, **emerging markets** are currently economies that are growing rapidly. Although it is difficult to determine the exact list of emerging markets, prominent countries such as India, China, Brazil, and Russia are considered to be emerging. In fact, the term BRIC, standing for Brazil, Russia, India, and China, has also been suggested to represent the strongest among the emerging economies.

The term *emerging markets*, coined by the World Bank around 25 years ago, represents markets that present tremendous opportunities for all multinationals.³ In fact, emerging markets have about five-sixths of the world's population with only half of the output. Furthermore, the purchasing power in many emerging markets has been increasing steadily. It is therefore not surprising to see that emerging markets now account for 30 percent of exports, compared to only 20 percent in 1970. Recent trends also show that developed countries' trade with emerging markets has been growing twice as much compared to trade with each other.⁴ Furthermore, while emerging markets are now experiencing a significant slowdown in growth, they are still expected to grow at a much faster pace than developed economies.

However, despite these classifications, we acknowledge that many of the economies classified as developing or transition economies can also be classified as emerging economies. In fact, countries such as Russia, Poland, and Singapore are rightly being classified as emerging markets in some reports. Such trends suggest that we will not see such a broad classification in the future, as countries will be seen as either developed or emerging.

Finally, although these nations have not necessarily received any specific designation, African nations are getting attention for their strong economic development.⁵ Many countries in Africa are growing at a faster pace than the rest of the world. Consider the following Case in Point.

With this overview of the major economies of the world, we can now look more closely at the driving forces of the new world economy. Exhibit 1.4 illustrates these important forces. Each will be discussed more fully in the following pages.

Disintegrating Borders: The World Trade Organization and Free Trade Areas

In 1947, several nations began negotiating to limit worldwide tariffs and encourage free trade. At that time, worldwide tariffs averaged 45 percent. Seven rounds of tariff negotiations reduced the average worldwide tariffs on manufactured goods from 45 percent to less than 7 percent. These negotiations were known as the **General Agreement on Tariffs and Trade (GATT)**.

General Agreement on Tariffs and Trade (GATT)

Tariff negotiations among several nations that reduced the average worldwide tariff on manufactured goods.



CASE IN POINT

Africa Rising?

Mo Ibrahim is one of Africa's noted entrepreneurs and is also the founder of the Mo Ibrahim Foundation, dedicated to supporting good governance in sub-Saharan Africa. When he was running MSI, a software and consulting company based in the United Kingdom, he started asking his telecommunications clients why they were not going to Africa. He saw tremendous opportunities in Africa, but most of his Western-based clients seemed ignorant of such opportunities. He therefore decided to form Celtel out of another telecommunications project that started in 1998. Through smart entry into lucrative markets and by buying only those licenses that were acquired through open bidding or cheap license costs, Celtel grew quickly, experiencing a growth of 216 percent in revenue between 2001 and 2010. Today, Celtel is owned by one of India's major telecommunications companies, Bharti Airtel, and is one of Africa's leading multinationals.

The above is just one example of the vast opportunities that African nations present to the world today. Many African nations are growing faster than the rest of the world. A number of other factors are

fueling this growth, and will sustain it in the future. For instance, by 2015, around 100 million households in Africa will have reached middle-class status, thereby supporting local demand. Furthermore, the African population will be significantly younger than the rest of the world. (The median age in Africa is now 20, as compared to 30 in Asia and 40 in Europe). Such demographic dividends are likely to support growth. Additionally, many African nations have seen significant regulatory changes that have improved the business climate. Many countries have reduced or eliminated trade barriers. Improvement in transportation also means that Africans are increasingly engaging in cross-border trade with each other. Finally, African nations are no longer solely relying on oil or other commodities for survival. Foreign investors are finding that other industries, such as technology and other services, are also worthy of investment.

Sources: Based on Economist. 2011. "The sun shines bright." December 3, 82–84; Mo, I. 2012. "Celtel's founder on building a business on the world's poorest continent." Harvard Business Review, October, 41–43.