GLOBAL EDITION

International Management

Managing Across Borders and Cultures

NINTH EDITION

Helen Deresky

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PEARSON

GLOBAL EDITION

International Management

Managing Across Borders and Cultures

TEXT AND CASES

NINTH EDITION

Helen Deresky

Professor Emerita, State University of New York-Plattsburgh

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To my husband, John, for his love and support, and to my family members, who always inspire me:
John J. and his wife Alyssa: John Rock, Helena, Max
Mark and his wife Sherry: Jacob, Sarah, Rachel
Lara and her husband Thomas: Thomas (TJ), Luke.

Brief Contents

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Preface

NINTH EDITION CHANGES

- Comprehensive cases: Ten comprehensive cases are new and current; one is a popular one from the eighth edition. Two of the new cases have won awards: Vodafone in Egypt; Ethical Leadership: Ratan Tata and India's Tata Group. The case selection provides increased coverage of emerging markets and high-technology companies. A range of topics and geographic locations is included as well as the interactive "Ethics Role-Playing" case.
- Integrative section: The new comprehensive case in the Integrative section—"IKEA in Russia: Emerging Market Strategies and Ethical Dilemmas"—is especially informative and challenging because it covers a range of topics from throughout the book. In addition, the popular Integrative Term Project has been retained.
- The feature box called "Under the Lens" has been expanded with a total of 19 boxes. This feature gives an in-depth look at important aspects of the chapter subjects, including, for example, "Nestlé Company Creates Shared Value," "The Global Role of Information Technology (IT)," "Doing Business in Brazil—Language, Culture, Customs, and Etiquette," "Modern Mexico: Reshoring—Location and Young Workforce Prove Attractive," "Communicating Italian Style," "Breaking Down Barriers for Small-Business Exports," "Amazon of India Uses Curry-Carrying Dabawallas to Spice up Parcel Delivery," "Tales from Trailing Husbands," "Women in Business Leadership," and "Interview: Yoshiaki Fujimori: Lixil Builds a New Style of Japanese Multinational."
- Maps added throughout.
- Chapter-opening profiles: There are seven new opening profiles, such as "BMG Signs Distribution Deal with Alibaba," "Social Media Bring Changes to Saudi Arabian Culture," and "TAG Hueur in Smartwatch Alliance with Google and Intel." The rest are updated favorites.
- Chapter-ending cases: There are seven new chapter-ending cases (keeping four favorites, such as, "Kelly's Assignment in Japan"). New examples are, "Foreign Companies in China Under Attack," "Foreign Businesses Tread Carefully as Cuba Opens Up," and "An Australian Manager in an American Company."
- All of the "Comparative Management in Focus" sections have been revised and updated. These provide in-depth comparative applications of chapter topics in a broad range of specific countries or regions.
- All of the "Management in Action" boxes have been replaced or updated; examples consider global cybertheft, Infosys, Target, and emerging markets.
- New coverage of geopolitical developments, such as in Ukraine, and their effects on strategy have been added throughout the ninth edition.
- Updated coverage of developments in globalization and its growing nationalist backlash.
- Expanded coverage on sustainability and creating shared value.
- Expanded and updated coverage of management issues regarding emerging market economies—in particular China, India, Brazil, Africa, and Russia.
- Expanded section on strategies for emerging markets.
- Added and expanded sections on small businesses and strategies for SMEs.

- Expanded sections on e-businesses, on born-global companies, and on strategy models.
- Expanded sections on the role of technology on business planning and operations.
- New sections throughout the chapters on global management teams and virtual teams.
- New research data and examples added throughout.

The ninth edition of *International Management: Managing Across Borders and Cultures* prepares students and practicing managers around the world for careers in a dynamic global environment wherein they will be responsible for effective strategic, organizational, and interpersonal management with a focus on sustainability. Although managing within international and cross-cultural contexts has been the focus of this text since the first edition, the ninth edition portrays the burgeoning level, scope, and complexity of international business facing managers in the twenty-first century. The ninth edition explores how recent developments and trends within a hypercompetitive global arena present managers with challenging situations; it guides the reader in what actions to take and how to develop the skills necessary to design and implement global strategies, to conduct effective cross-national interactions, and to manage daily operations in and with foreign subsidiaries and with global allies and partners. Emphasis is also placed on the considerable cross-border management that takes place among teams—often virtually. Companies of all sizes wishing to operate overseas are faced with varied and dynamic environments in which they must accurately assess the political, legal, technological, competitive, and cultural factors that shape their strategies and operations. The fate of overseas operations depends greatly on the international manager's cultural skills and sensitivity as well as on the ability to carry out the company's strategy within the context of the host country's business practices. Although much of the research has originated in the United States and Europe, we stress that there is no one best way to manage and no cultural behaviors that are viewed as preferred. We take the perspective of managers around the world so that they can learn about and from one another, how to work effectively in cross-national teams, and how to combine best practices for the local environment in which the firm is operating.

In the ninth edition, cross-cultural management and competitive strategy are evaluated in the context of global changes—the pervasive influence of technology, e-business, and social media on business strategy and operations, including on born globals; the eurozone crisis; the increasing trade between the two Americas; the emerging markets and rapidly growing economies in Asia and Africa—that require new management applications; and the challenges posed by the global war for talent. These developments take place in the context and influence of continuing political and economic problems in the eurozone, in ongoing geopolitical and security crises around the world, and in an era of cybertheft—all of which provide threats and opportunities for businesses, their supply chains, and their personnel. Importantly, the ninth edition includes increased emphasis on small- and medium-sized businesses and their strategies. Throughout, the text emphasizes how the variable of culture interacts with other national and international factors to affect managerial processes and behaviors. Concerns about corporate social responsibility (CSR), sustainability, and ethics while operating in global locations are addressed at length.

This textbook is designed for undergraduate and graduate students majoring in international business or general management. Graduate students might be asked to focus more heavily on the comprehensive cases that conclude each part of the book and to complete the term project in greater detail. It is assumed, though not essential, that most students using *International Management: Managing Across Borders and Cultures,* Ninth Edition, will have taken a basic principles of management course. Although this text is primarily intended for business students, it is also useful for practicing managers and for students majoring in other areas, such as political science or international relations, who would benefit from a background in international management.

NINTH EDITION FEATURES

This edition has streamlined text in 11 chapters, with particular focus on global strategic positioning, entry strategies and alliances, effective cross-cultural understanding and management, and developing and retaining an effective global management cadre. It has been revised to reflect current research, current events, and global developments and includes examples of companies around the world from the popular business press. The following section summarizes specific features and changes.

NEW COMPREHENSIVE CASES IN NINTH EDITION

1. Facebook's Internet.org Initiative: Serving the Bottom of the Pyramid? (several countries)
2. An Ethics Role-Playing Case: Stockholders versus Stakeholders (Global/Sri Lanka) (requested favorite from 8ed)
3. Vodafone in Egypt: National Crises and Their Implications for Multinational Corporations (Egypt)
4. Hailing a New Era: Haier in Japan (China/Japan)
5. Alibaba versus Tencent: The Battle for China's M-Commerce Space (China/Global)
6. Business Model and Competitive Strategy of IKEA in India (India)
7. Wal-Mart in Africa (Africa)
8. Fiat Chrysler Automobiles N.V. (2015): From an Alliance to a Cross-Border Merger (Global)
9. Ethical Leadership: Ratan Tata and India's Tata (India/Global)
10. IKEA in Russia: Emerging Market Strategies and Ethical Dilemmas (Russia)

COVERAGE AND FEATURES BY PART AND CHAPTER

PART 1: The Global Manager's Environment

CHAPTER 1: ASSESSING THE ENVIRONMENT: POLITICAL, ECONOMIC, LEGAL, TECHNOLOGICAL

New Opening Profile: Western Businesses Scramble to Assess Their Risks in Russia as Geopolitical Tensions Escalate

New Management in Action (MA): "Global Cybertheft of Corporate Secrets an Increasing Risk"

Revised Comparative Management in Focus (CMF): China Loses Its Allure

Updated Box Feature—Under the Lens: The Global Role of Information Technology (IT)

Updated Case: Apple's iPhones—Not "Made in America"

Chapter 1 has been revised and updated to reflect developments and events in global business, in particular as it is affected by political developments. In Chapter 1, we introduce trends and developments facing international managers and then expand those topics in the context of the subsequent chapters. For example, we discuss the status of attitudes that suggest a retreat from globalization toward protectionism resulting from economic problems, in particular in the eurozone, as well as from political crises, cybertheft, terrorism, and trade barriers. In addition, we have reorganized the chapter to focus specifically on various aspects of globalization, including some retrenching in the globalization of human capital toward regionalization and nearshoring or reshoring as well as the globalization of information technology. We discuss the effects on global business of the rapidly growing economies of China and India and other developing economies such as Brazil, Russia, Mexico, and those in Africa; the increasing number of maturing and now global companies from those areas; the escalating role of information technology and social media; and the global spread of e-business. In addition, we have added material and focus on small and medium-sized companies here and throughout the book. We follow these trends and their effects on the role of the international manager throughout the book.

CHAPTER 2: MANAGING INTERDEPENDENCE: SOCIAL RESPONSIBILITY, ETHICS, SUSTAINABILITY

New Opening Profile: The Bangladesh Disaster: Can Companies Outsource Responsibility for Workers in Its Supply Chain?

New Under the Lens: Nestlé Company Creates Shared Value Globally

Revised CMF: Doing Business in China: CSR and the Human Rights Challenge

New Under the Lens: Rolls-Royce Accused of Bribery to Obtain $100m Petrobras Contract

Under the Lens: Mining Corporations and Pollution Charges: Lynas Corporation in Malaysia

MA: Recycling Lives—Social Entrepreneurship Breaking Down Barriers

New End Case: Levi Looks to Cut Its Cloth Differently by Rewarding Responsible Suppliers

Chapter 2, as indicated by the title, takes a long-term view of the company's global stakeholders and its strategy. It includes an expanded section on sustainability strategies, including a new model and feature on Nestlé's leadership in sustainability by creating shared value. The chapter is updated throughout, with new examples, and has a new section on ethics in uses of technology as well as coverage of China's clampdown on social media. In addition, the Corruption Perception Index has been updated and its results discussed.

PART 2: The Cultural Context of Global Management

CHAPTER 3: UNDERSTANDING THE ROLE OF CULTURE

New Opening Profile: Social Media Bring Changes to Saudi Arabian Culture

Under the Lens: Religion and the Workplace

New MA: Google's Street View Makes Friends in Japan but Clashes with European Culture

CMF: Expanded Profiles in Culture: Japan, Germany, Latin America

Under the Lens: Doing Business in Brazil—Language, Customs, Culture, and Etiquette

New End Case: An Australian Manager in an American Company

Chapter 3 examines the pervasive effect of culture on the manager's role. It includes a new section, "Consequence or Cause?"; expanded coverage of culture's effects on management; increased emphasis on CQ (cultural quotient); and new coverage of the connection between social media and culture. In particular, this chapter presents ways for managers around the world to anticipate, understand, and therefore adjust to working with people in other countries; those ways include understanding the variables of culture through research and recognizing how to develop a descriptive basis for a cultural profile. Several countries are represented, including an in-depth look at Brazil.

CHAPTER 4: COMMUNICATING ACROSS CULTURES

Updated Opening Profile: The Impact of Social Media on Global Business

Under the Lens: Communicating in India—Language, Culture, Customs, and Etiquette

New Under the Lens: Communicating Italian Style

Under the Lens: How Feng Shui Affects Business

MA: Oriental Poker Face: Eastern Deception or Western Inscrutability?

CMF: Communicating with Arabs

End Case: Miscommunications with a Brazilian Auto Parts Manufacturer

Chapter 4 links culture and communication in its various forms and focuses on how that affects business transactions and how managers should act in other cultural settings. In particular, the section on nonverbal communication has been expanded in the ninth edition, along with the addition of three illustrative "Under the Lens" sections and an in-depth look at communicating with Arabs.

CHAPTER 5: CROSS-CULTURAL NEGOTIATION AND DECISION MAKING

New Opening Profile: Facebook's Continued Negotiations in China

Updated and Expanded CMF—Negotiating with the Chinese

Updated Under the Lens: Negotiations and Decisions to Save the Eurozone System

MA: Target: Frozen Out

CMF: Decision Making in Japanese Companies

New End Case: Search Engines Aid Decision Making and Negotiation

Chapter 5 continues the link among the variables of culture, communication, negotiation, and decision making—they are all intertwined. New examples, features, and cases are introduced to explain and illustrate the effects on the manager's role. A new section focuses on negotiating teams, and the feature on "Negotiating with the Chinese" has been updated and expanded.

PART 3: Formulating and Implementing Strategy for International and Global Operations

CHAPTER 6: FORMULATING STRATEGY

New Opening Profile: Amazon, eBay, and Flipkart Bet Big on India

New CMF: Global Companies Take Advantage of Growth Opportunities in South Africa

New Under the Lens: 2012: US Bans Huawei From Government Contracts: In 2015, China Bans Cisco. Politics or Business As Usual?

New Under the Lens: Modern Mexico: Reshoring—Location and Young Workforce Prove Attractive

Updated and Revised MA: Strategic Planning for Emerging Markets

New End Case: Foreign Businesses Tread Carefully as Cuba Opens Up

Chapter 6 explains the reasons that firms choose to do business abroad and the various means for them to do so. The steps in developing those strategies, for firms of all sizes, are examined along with the explanatory models and the pros and cons of those options, including the move toward reshoring and nearshoring. The ninth edition expands on e-business and born globals and includes an expanded, revised section on strategic planning for emerging markets, including an extensive discussion of a study of 247 executives by Deloitte Review regarding their strategies in emerging markets. Data and charts on global Internet usage and global services are updated. Discussion of cultural distance relative to strategic planning has been added. Throughout, there are new features and updated examples focusing, among others, on Cuba, South Africa, Mexico, and the political effects on McDonald's in Russia.

CHAPTER 7: IMPLEMENTING STRATEGY: STRATEGIC ALLIANCES, SMALL BUSINESSES, EMERGING ECONOMY FIRMS

New Opening Profile: TAG Hueur in Smartwatch Alliance with Google and Intel

Updated and Revised CMF: Joint Ventures in the Russian Federation

Under the Lens: Breaking Down Barriers for Small-Business Exports

Under the Lens: Global Supply Chain Risks—The Japanese Disaster

New MA: Infosys' Path From Emerging Start-up to EMNE

New End Case: Foreign Companies in China Under Attack

Chapter 7, as indicated by the new title and the new features noted here, includes new sections regarding implementing strategies for small businesses and emerging economy firms as well as expanded coverage of implementing alliances, including those among high-tech firms. New examples and discussion of alliances around the world are included. The revised CMF on IJVs in the Russian Federation reflects the effects of recent geopolitical events. In addition, we discuss new trends regarding labor and supply chain sourcing, which provide further updates on issues facing managers. We expand the discussion on challenges in implementing strategies in emerging markets.

CHAPTER 8: ORGANIZATION STRUCTURE AND CONTROL SYSTEMS

New Opening Profile: BMG Signs Distribution Deal with Alibaba

New Under the Lens: Amazon of India Uses Curry-Carrying Dabbawallas to Spice Up Parcel Delivery

Updated MA: Procter & Gamble's Think Globally–Act Locally Structure

CMF: Changing Organizational Structures of Emerging Market Companies

Updated Under the Lens: FIFA—Restructuring for Governance Oversight of Ethics

New End Case: HSBC in 2015: Complex Global Operations and Downsizing

Chapter 8 further examines how to implement strategy effectively by setting up appropriate structural and control systems. The ninth edition gives updated text and organizational examples and includes a new section, "Teams as a Global–Local Structure." Included are new features and cases to explain why and how the way the firm organizes must change to reflect strategic change, which in turn responds to competitive and other environmental factors affecting the industry and the firm. Features include e-businesses such as Alibaba and Flipkart. Issues of monitoring, controlling, and evaluating the firm's ongoing performance are discussed. The end case details the radical changes HSBC is undergoing in 2015.

PART 4 : Global Human Resources Management

CHAPTER 9: STAFFING, TRAINING, AND COMPENSATION FOR GLOBAL OPERATIONS

Opening Profile: Staffing Company Operations in Emerging Markets

Under the Lens: HSBC's Staffing Challenges in the UAE

New Under the Lens: Tales from Trailing Husbands

CMF: Expatriate Performance Management Practices: Samples from Five Countries

Updated MA: Success! Starbucks' Java Style Helps to Recruit, Train, and Retain Local Managers in Beijing

End Case: Kelly's Assignment in Japan

Chapter 9 continues strategy implementation by focusing on the IHRM issues of preparing and placing managers in overseas locations as well as hiring, training, and compensating local managers. The ninth edition includes updated research information and focuses on the "war for talent" around the world, in particular the competition for talent in emerging markets. We have expanded the coverage in the sections under "Managing Expatriates" and about their performance management, and there is a new section, "Global Team Performance Management."

CHAPTER 10: DEVELOPING A GLOBAL MANAGEMENT CADRE

Updated Opening Profile: The Expat Life

Under the Lens: Expatriates' Careers Add to Knowledge Transfer

Expanded and Updated MA: Women in Management Around the World

New Under the Lens: Ford's Bitter Struggle to Close a Plant in Belgium

Under the Lens: Vietnam: The Union Role in Achieving Manufacturing Sustainability and Global Competitiveness

Updated CMF: Labor Relations in Germany

End Case: Expatriate Management at AstraZeneca Plc

Chapter 10 focuses on ways to maximize the long-term value to the firm of its expatriates, maximize the opportunities of its women in management, and effectively manage its knowledge transfer and global management teams and virtual teams. The "Global Management Teams" and "The Role of Women in International Management" sections have been expanded and updated. In addition, this chapter brings new focus to understanding the role of organized labor around the world and its impact on strategy and human resources management. New survey results regarding expatriate retention and the roles of their families are examined, and a new feature examining the role of expatriates' careers in knowledge transfer to the firm is included.

CHAPTER 11: MOTIVATING AND LEADING

Updated Opening Profile: The EU Business Leader—Myth or Reality?

Updated CMF: Motivation in Mexico

Updated Under the Lens: Managing in Russia—Motivation and Leadership Challenges

New Under the Lens: Interview, Yoshiaki Fujimori: Lixil Builds a New Style of Japanese Multinational

New Under the Lens: Women in Business Leadership

Updated MA: Leadership in a Digital World

New End Case: Interview: Carlo D'Asaro Biondo, Google's Europe Strategy Chief in Charm Offensive

Chapter 11 of the ninth edition has been updated with new examples and research. We have updated and expanded the research on motivation and added new sections, "Women in Business Leadership," "Global Team Leadership," and "The Role of Technology in Leadership," as well as a new end case. The chapter focuses on both classical and modern research on motivation and leadership in the global arena; specific attention is paid to global mindset characteristics and behaviors that are typical of successful cross-cultural leaders. Finally, an integrative model is presented that illustrates the complexities of the leader's role in various contextual, stakeholder, and cross-border environments.

Additional Ninth Edition Features

- **Experiential exercises** at the end of each chapter, challenging students on topics such as ethics in decision making, cross-cultural negotiations, and strategic planning.
- **Integrative section** A new case (case 11) incorporates a range of topics and locations covered in the text. The case challenges students to consider the relationships among the topics and steps in this text and to use a systems approach to problem solving for the global manager's role; it also illustrates the complexity of that role.
- **An integrative term project** outlined at the end of the text provides a vehicle for research and application of the course content.

INSTRUCTOR RESOURCES

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

The following supplements are available with this text:

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

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P A R T

1 The Global Manager's Environment

PART OUTLINE

CHAPTER

1 Assessing the Environment

Political, Economic, Legal, Technological

OUTLINE

OBJECTIVES

1-1. To understand the global business environment and how it affects the strategic and operational decisions that managers must make

1-2. To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face

1-3. To recognize the role of the legal environment in international business

1-4. To review the technological environment around the world and how it affects the international manager's decisions and operations.

Opening Profile: Western Businesses Scramble to Assess Their Risks in Russia as Geopolitical Tensions Escalate[1]

You don't want to be a dedicated Russia guy anymore … I am trying to learn Turkey.

AMERICAN BANKER WHO LOST HIS JOB IN MOSCOW
quoted in the *New York Times*, November 6, 2014

GM says it will shut Russian plant; wind down Opel brand.

WWW.NYTIMES.COM
March 18, 2015

Starting in spring 2014 and through 2015, it was clear that doing business in or with Russia had become unpredictable for most Western businesses and perilous for many. How did it get to this point for companies that had placed large bets and considerable resources on their future in Russia?

In March 2014, Russian President Vladimir Putin annexed Crimea—the southern province of Ukraine—after Ukraine's then President Yanukovych rejected the free trade agreement with the EU in November 2013 under pressure from Putin. This led to the pro-Western protests in Ukraine and caused Yanukovych's downfall and escape to Russia. The move was so swift and unexpected that managers around the world who had business in or with Russia and Ukraine scrambled to assess the potential risks to their operations in those areas. Their concern was magnified as increasing sanctions were imposed on Russia by President Obama and Europe. In particular, managers of Western businesses in Russia were afraid that the turmoil would escalate and that their operations there would be subject to retaliatory measures. In Moscow, offices at the American Chamber of Commerce and at the Association of European Businesses were inundated with calls to try to assess their exposure to risks under different scenarios. In addition, for Western multinationals in Russia, in particular European companies such as Renault and Carlsberg, the fear was that sanctions would adversely affect an already weak economy there and so drive down their businesses.

Europe is Russia's largest trading partner, and Germany has great ties to Russia and so was reluctant to go along with sanctions that would backfire on its businesses. About a third of the exports to Russia from the EU come from Germany, in particular from the auto industry. More than 6,000 German companies, employing about 300,000 people in Germany, have business interests in Russia. In addition, Germany gets about a third of its oil and gas from Russia. There seemed to be a rift between businesspeople and the German Chancellor, Angela Merkl, about the approach toward sanctions.

A number of U.S. companies that manufacture in Russia, such as John Deere, were concerned about the risk to their employees and enacted security measures to protect them. Pepsi and McDonald's are among many that have a sizeable presence in Russia and were keeping a careful watch on developments.

Russian firms, too, especially those with joint ventures with European or U.S. companies, were wondering how events might affect them. Some Russian banks, in particular, soon became vulnerable as President Obama passed measures to freeze their assets abroad; these measures also affected any banks in the world that do business with those Russian banks, resulting in the flight of capital out of Russia due to the suspension of assets and travel privileges of people close to President Putin.

As the weeks passed and tensions escalated over sporadic fighting in eastern Ukraine, the United States and the EU stepped up sanctions against select Russian businesspeople and politicians and widened the program to freeze their assets held abroad. As a result, a number of Western companies expressed concern about their sales in Russia and their rising costs of importing supplies for their businesses there. In addition, a threat was growing about a possible backlash in Russia against Western products. Caterpillar, for example, which has been in Russia for longer than 100 years, and McDonald's, with more than 400 restaurants in Russia, both regard Russia as a key market and wondered about the general instability spreading in the region. Putin, meanwhile, was hinting at retaliatory action against Western firms in Russia, in particular energy companies. The general feeling was that it was perilous to do business with or in Russia.

Many of the sanctions were against the energy and technology industries in Russia. The largest source of investment in Russia comes from U.S. firms, in particular technology and financial companies. Those companies felt that further sanctions would result in losing business to firms from other countries who were not being restricted in doing business in Russia. They felt also that business relationships with customers in Russia would be severed for the future, that export sales would decline, and that deals involving transfer of technology would be jeopardized.

Among the European countries, firms in the U.K, for example, were concerned about financial services, and those in France were mostly worried about losing military sales. However, in spite of an estimated $60 billion of capital outflow from Russia in the first quarter of 2014, the conflict continued; the Ukrainian government maintained that Russia continued to support the rebels in Ukraine by sending tanks and other military supplies.

The standoff continued as Ukraine's President Petro Poroshenko signed a trade and political policies pact with the EU on June 27, along with Georgia and Moldova, and extended a cease-fire with Russian separatists. Meanwhile, the EU, with the support of the United States, announced that Russia had 72 hours to settle conflicts in Ukraine or face further sanctions.

In late July 2014, U.S. and European leaders agreed to escalate sanctions dramatically on Russia's financial, energy, and defense sectors, crippling the state banking sector and curbing the ability for Russia to develop new oil resources. These moves followed a global outcry after a civilian airplane, Malaysia Airlines Flight 17, was shot down over Ukraine by suspected pro-Kremlin separatists, killing all 298 people on board. Now there was an abrupt change in attitude from European leaders and company heads. Total, for example, France's oil giant, severely curtailed its stake in its Russian partner Novatek after the air disaster. Quick to retaliate, on August 7, Putin ordered a ban on imports of all beef, pork, fruit, vegetable, and dairy products from the European Union, the United States, Canada, Australia, and Norway. Clearly, the escalating economic warfare and geopolitical tensions were having drastic effects. Firms and farmers in countries such as the Netherlands, Poland, and Lithuania, heavily dependent on agricultural exports to Russia, were severely hurt; many were scrambling to diversify their exports to other regions such as Asia. It was difficult for farmers to understand that geopolitical conflict far removed from them could put them out of business. EU food exports to Russia amount to about $10 billion euro ($13 billion) a year.

In meetings, German Chancellor Angela Merkel made it clear that Russia was no longer considered a reliable partner and that Germany would continue to impose strict sanctions even though they would hurt German businesses, which had spent decades developing ties and opportunities in Russia, but that trust was now lost. Although the German people supported the sanctions, those with small businesses that exported to Russia were hit especially hard, losing more than 20 percent of business in the first half of 2014, and feared losing future opportunities to firms in Asia. Meanwhile, as the lack of Western foods in the stores drove up food prices for the Russian people and the ruble was hit hard, many Russians were questioning Putin's decisions.

As the fighting escalated, the EU announced broader financial penalties on Russia's banks, arms manufacturers, and its biggest oil company, Rosneft, 19.75 percent of which is owned by Britain's BP. Included were increased restrictions to Europe's capital markets, further restricting the ability to raise capital for major oil and defense companies. The Russian economy and the ruble were considerably pressured at this point; in addition, oil prices were falling, inflation was rising, and Western capital markets were estimating that more than $100 billion of capital would flee Russia in the near future. It was apparent that Putin was scaring away both foreign and Russian businesses. Russian Finance Minister Anton Siluanov estimated that Russia was losing $40 billion a year because of the geopolitical sanctions. By March 2015, even Putin's inner circle was showing considerable concern; the ruble had lost about 60 percent of its value against the dollar since the annexation of Crimea. Tourist businesses in London were upset because they were not getting the usual flood of Russian tourists, who could no longer afford to travel abroad. Foreign companies in Russia such as IKEA and Apple raised their prices to make up for the ruble's drop in value, making them unaffordable for the Russians to purchase. In addition, President Putin was trying to bail out the banks by using government reserves, which was perceived as a desperate move. Added to this, the drastic drop in oil prices—a major revenue source—was hitting the Russian economy hard.

In spite of several failed peace agreements, the fighting continued as of March 2015, with the death toll estimated at 6,000, the Russian-controlled zone in the Ukraine continuing to grow, and President Putin pursuing his apparent endgame to gain autonomy for the eastern regions and so deter Ukraine from aligning further with Europe.

Meanwhile, it is the European and U.S. companies that are held hostage in this geopolitical battle. Many firms, such as Carlsberg and Adidas, were blaming Russia for considerable losses in global revenue. Others such as Schlumberger simply withdrew their American and European employees from Russia. All industries seem to have been affected either by the sanctions or by retaliation from Russia. As of March 2015, the 500 firms researched by the consultant firm A. T. Kearney noted that Russia is simply not a viable investment choice due to the continued uncertainty about whether and when the situation in Ukraine would be resolved and the sanctions lifted; however, most planned to increase investments if it is resolved. As of this writing, this appeared doubtful because the Russian economy was predicted to shrink by 6 percent in 2015. Moreover, in

March 2015, GM announced that it is shutting down its plant in St. Petersburg, anticipating a further decline of 24 to 35 percent in sales because the severely depressed value of the ruble meant that people were not buying cars.

How can firms that operate around the world protect themselves against this kind of geopolitical fallout on their businesses? How can they respond in this type of situation? What has happened since this writing?

As evidenced in the opening profile, managers in the twenty-first century are being challenged to operate in an increasingly complex, interdependent, networked, and changing global environment in which such developments can have repercussions around the world almost instantaneously. Clearly, those involved in international and global business have to adjust their strategies and management styles to those kinds of global developments as well as to those regions of the world in which they want to operate, whether directly or through some form of alliance.

Typical challenges that managers face involve politics, cultural differences, global competition, terrorism, technology, and sustainability. In addition, the opportunities and risks of the global marketplace increasingly bring with them the societal obligations of operating in a global community. An example is the dilemma Western drug manufacturers face of how to fulfill their responsibilities to stockholders, acquire capital for research and development (R&D), and protect their patents while also being good global citizens by responding to the cry for free or low-cost drugs for AIDS in poor countries. Managers in those companies are struggling to find ways to balance their social responsibilities, their images, and their competitive strategies.

To compete aggressively, firms must make considerable investments overseas—not only capital investment but also investment in well-trained managers with the skills essential to working effectively in a multicultural environment. In any foreign environment, managers need to handle a set of dynamic and fast-changing variables, including the pervasive variable of culture that affects every facet of daily life. Added to that behavioral "software" are the challenges of the burgeoning use of technological software and the borderless Internet, which are rapidly changing the dynamics of competition and operations.

International management, then, is the process of developing strategies, designing and operating systems, and working with people around the world to ensure sustained competitive advantage. Those management functions are shaped by the prevailing conditions and ongoing developments in the world, as outlined in the following sections.

THE GLOBAL BUSINESS ENVIRONMENT

Following is a summary of some of the global situations and trends that managers need to monitor and incorporate in their strategic and operational planning. We discuss the status of globalization and the debates about its effects on countries, on corporations, on human capital, and on the relationship with information technology (IT). We look briefly at some of the areas in the world in which you might find yourself doing business, with a particular focus on China (see World Map 1 after the chapter, for reference throughout this book).

Globalization

Regionalization and localization are replacing unfettered globalization.

RANA FOROOHAR
TIME, APRIL 7, 2014[2]

. . . . [W]e've entered a different phase, which I call 'guarded globalization.'

IAN BREMMER, *HARVARD BUSINESS REVIEW*
JANUARY–FEBRUARY 2014[3]

The types of events described in the opening profile illustrate the interdependence of business, politics, trade, and financial links around the world. That interdependence has come to be known as **globalization**—global competition characterized by networks of international linkages comprising economic, financial, political, and social markets that in turn bind countries, institutions, and people in an interdependent global economy; these linkages have resulted in the free movement of goods, people, money, and information across borders. Economic integration results from the lessening of trade barriers and the increased flow of goods and services, capital, labor, and technology around the world. The invisible hand of global competition has been propelled by the phenomenon of an increasingly borderless world, by technological advancements, and by the rise of emerging markets such as China and India—a process that Thomas Friedman called "leveling the playing field" among countries—or the "flattening of the world."[4] That was then, but this is now—and some are now arguing that the world is no longer so flat and that it is reverting more to **deglobalization**. This retreat, or inversion, is resulting from political crises, cybertheft, protectionism, and increasing trade barriers, which, in turn, have resulted from the global trade slowdown.[5] As Bremmer notes in the *Harvard Business Review*, the governments of many developing nations have become increasingly nationalistic in protecting their own industries rather than opening them to foreign companies, in particular multinational corporations (MNCs).[6]

On a strategic level, Ghemawat argues that the business world is in a state of "semi-globalization"—that various metrics show that only 10 to 25 percent of economic activity is truly global. He bases this conviction on his analysis that "most types of economic activity that can be conducted either within or across borders are still quite localized by country."[7] Ghemawat poses that we are in an "unevenly globalized world" and that business opportunities and threats depend on the individual perspective of country, company, and industry.[8] He observes that, as emerging market countries have gained in wealth and power and increasingly call their own shots, a reverse trend of globalization is taking place—evolving fragmentation—which he says is, ironically, a ripple effect of globalization.[9]

Global Trends

Nevertheless, globalization is still here; it is a matter of degree and direction in the future. The rapid development of globalization over the past decades is attributable to many factors, including the burgeoning use of technology and its accompanying uses in international business; political developments that enable cross-border trade agreements; and global competition for the growing numbers of consumers around the world. From studies by Bisson et al. and others, we can also identify five key global trends that provide both challenges and opportunities for companies to incorporate into their strategic planning:[10]

- The changing balance of growth toward emerging markets compared with developed ones, along with the growing number of middle-class consumers in those areas
- The need for increased productivity and consumption in developed countries to stimulate their economies
- The increasing global interconnectivity—technologically and otherwise, as previously discussed—and in particular the phenomenon of an "electronically flattened earth" that gives rise to increased opportunity and fast-developing competition
- The increasing gap between demand and supply of natural resources, in particular to supply developing economies, along with the push for environmental protection
- The challenge facing governments to develop policies for economic growth and financial stability[11]

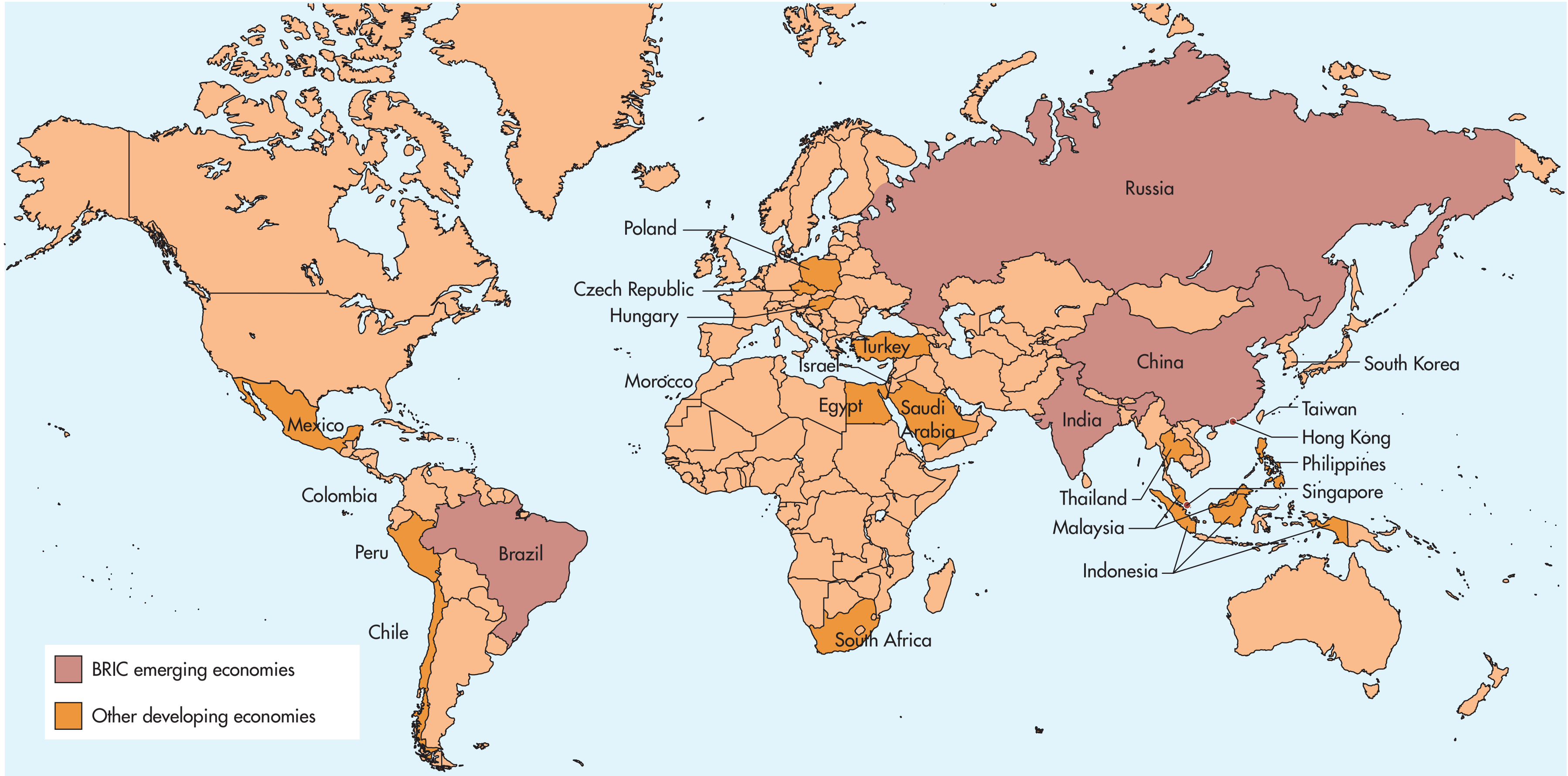
Globality and Emerging Markets

Half of the global growth now comes from emerging markets.

ROBERT ZOELLICK, PRESIDENT, WORLD BANK
SEPTEMBER 19, 2011[12]

It is clear that globalization—in the broader sense—has led to the narrowing of differences in regional output growth rates, driven largely by increases led by China, India, Brazil, Russia, and South Africa. There is no doubt that the global economic turmoil has curtailed investment, and company executives remained wary of investment in 2015. However, global trade is increasingly including those developing nations judged to have significant growth potential (see Map 1.1, Emerging Economies). In fact, some are saying that MINT is the new BRIC (Brazil, Russia, India, and China),

MAP 1.1 **Emerging Economies**



referring to the up and coming countries of Mexico, Indonesia, Nigeria, and Turkey. Exhibit 1-1 shows the 2014–2015 results from research by the A. T. Kearney Company of the foreign direct investment (FDI) intentions and preferences of the leaders of 300 top companies in 17 industry sectors spanning six continents; the companies participating in the survey account for more than $2 trillion in global revenue. The exhibit shows the top 25 countries in which those executives have confidence for their investment opportunities. Kearney's results show that the United States continues to be in the lead since 2013, up from fourth in 2012, followed by China, Canada, United Kingdom, and Brazil; India has dropped to seventh from second in two years.[13] Overall, the results show renewed confidence in the economic recovery in the United States and Europe. It is clear also that the phenomenon of rapidly developing economies continues, says Fareed Zakaria, and is something much broader than the much-ballyhooed rise of China or even Asia. Rather, he says:

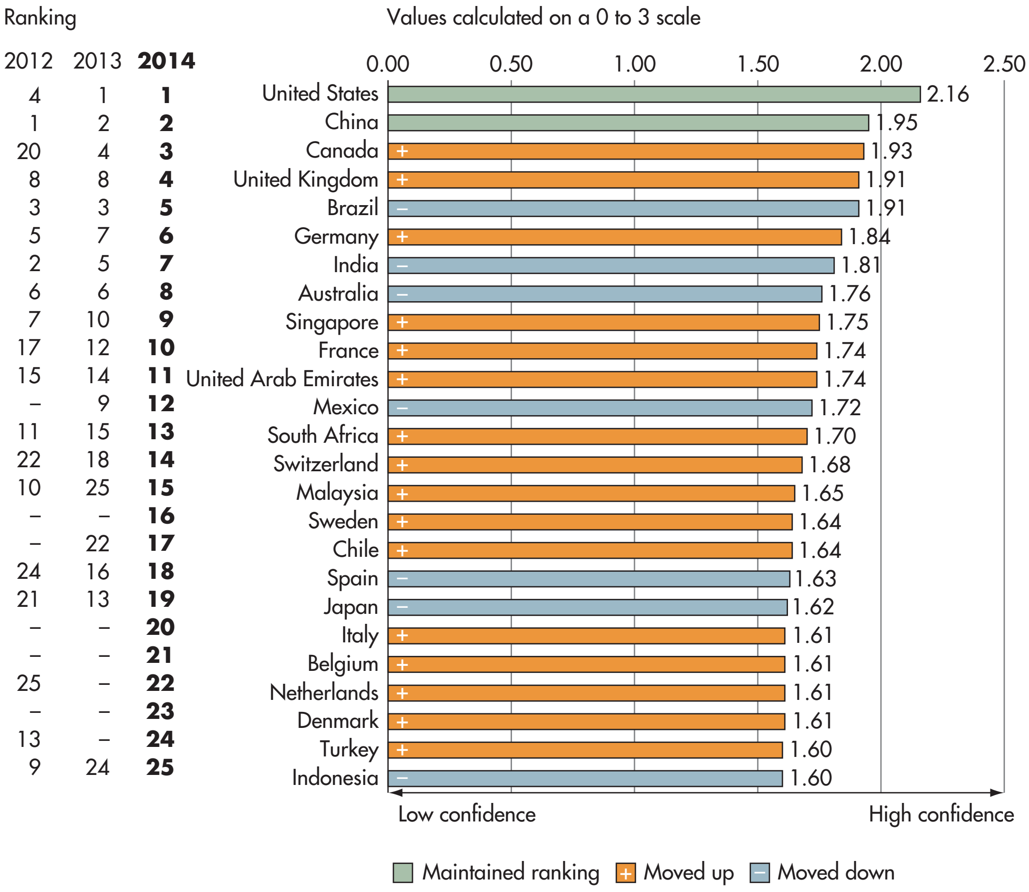
> *It is the rise of the rest—the rest of the world.*[14]

"The rest," he says, includes countries such as Brazil, Mexico, South Korea, Taiwan, India, China, and Russia. He states that, as traditional industries in the United States continue to decline, "the rest" are picking up those opportunities. Even so, the United States remains dominant in many new age industries such as nanotechnology and biotechnology. It is clear, also, that as emerging markets continue to grow their countries' economies, they will provide growth markets for the products and services of developed economies.

The Boston Consulting Group's (BCG) 2014 list of Global Challengers shows evidence of the growing number of companies from emerging markets: companies that are growing faster

EXHIBIT 1-1 2014–2015 Foreign Direct Investment Confidence Index Top 25 Targets for FDI

The main types of FDI are acquisition of a subsidiary or production facility, joint ventures, licensing, and investing in new facilities or expansion of existing facilities.



Source: 2014–2015 FDI Confidence Index, copyright A. T. Kearney, 2014. All rights reserved. Reprinted with permission.

than comparable companies are. Although there are relatively fewer from China and India than in previous years, there are more from smaller countries, including five from Thailand, four from Turkey, and three from Chile, which are at all-time highs.[15] Examples of the now more mature emerging giants are, from China, Huwei Technologies, Lenovo Group, and Baosteel; from India, Infosys Technologies, Tata Group, and Bharti Airtel; from Brazil, Embraer and Votorantim Group; from Mexico, Group Bimbo; Gazprom from Russia; and Bumi Resources from Indonesia—to name a few.

> *Simply put: If you're doing business with the biggest companies in the world, you're not just spending time in New York, London, and Hong Kong.*[16]
>
> FORTUNE
> *JULY 25, 2011*

Further evidence that *globalization* is no longer just another word for *Americanization* is the increase in the number of emerging-market companies acquiring established large businesses and brands from the so-called developed countries. For example, in 2008, InBev, a Belgian-Brazilian conglomerate, bought the Budweiser brand, America's favorite beer. Clearly, companies in emerging markets are providing many tangible business opportunities for investment and alliances around the world and establishing themselves as competitors to reckon with. One example of a company enjoying rapid global growth through technology is Alibaba, with Jack Ma, founder and leader.

> *We operate leading online and mobile marketplaces in retail and wholesale trade as well as cloud computing and other services. We provide technology and services to enable consumers, merchants, and other participants to conduct commerce in our ecosystem.*
>
> WWW.ALIBABAGROUP.COM
> *ACCESSED MARCH 14, 2015*

Backlash against Globalization

As we consider the many facets of globalization and how they intertwine, we observe how economic power and shifting opinions and ideals about politics and religion, for example, result in an increasing backlash against globalization and a rekindling of nationalism. Capitalism and open markets, most notably by Western companies, has propelled globalization. Now "economic power is shifting fast to the emerging nations. China and India are replacing the U.S. as the engines of world economic growth."[17]

The rising nationalist tendencies are evident as emerging and developing nations—wielding their economic power in attempted takeovers and inroads around the world—encounter protectionism. There is hostility toward takeovers such as the Indian company Mittal Steel's bid for Europe's largest steel company, Arcelor. In particular, as the demand for energy resources burgeons, we see increased protectionism of those resources around the world as Russia, Venezuela, and Bolivia have privatized their energy resources.

The backlash against globalization comes from those who feel that it benefits advanced industrial nations at the expense of many other countries and the people within them who are not sharing in those benefits. Joseph Stiglitz, a Nobel laureate, for example, argues that such an economic system has been pressed upon many developing countries at the expense of their sovereignty, their well-being, and their environment. Critics point to the growing numbers of people around the world living in poverty.[18] Income inequality has become a major risk factor in the world because so many have limited access to affordable natural resources, services, and products. There is continuing debate about the extent to which globalization has caused income inequality—or at least the realization of it among indigenous people where MNCs operate—or to what extent globalization has furthered the opportunities to people and local areas to improve their lot. This debate is discussed further in Chapter 2. Recently, globalization has also become increasingly unpopular with many in the United States as growth in emerging markets raises prices for energy and commodities and as their jobs are lost overseas, driving down wages.[19]

Although the debate about the effects of globalization continues, it is clear that economic globalization will be advanced by corporations looking to maximize their profits with global efficiencies, by politicians and leaders wishing to advance their countries' economies, and by technological and transportation advances that make firms' production and supply networks more efficient. However, pressure by parties against those trends, as well as the resurgence in nationalism and protectionism, may serve to pull back those advances to a more regional scope in some areas or limit them to bilateral pacts.[20]

In addition, although competition to provide the best and cheapest products to consumers exerts pressure on corporations to maximize efficiencies around the world, there is also increasing pressure and publicity for them to consider the social responsibility of their activities (discussed further in Chapter 2).

Effects of Institutions on Global Trade[21]

Two major groups of institutions (supranational and national) play differing roles in globalization. Supranational institutions such as the World Trade Organization (WTO) and the International Labor Organization (ILO) promote the convergence of how international activities should be conducted. For example, the WTO promotes the lowering of tariffs and a common set of trade rules among its member countries. Similarly, the ILO promotes common standards of how workers should be treated. Although many supranational institutions frequently promote rules or laws favorable to foreign firms (e.g., requiring intellectual property rights protections in China), others have been criticized for infringing on national sovereignty (e.g., challenges to certain environmental laws in the United States).

National institutions, in contrast, play a role in creating favorable conditions for domestic firms and may make it more difficult for foreign firms to compete in those countries. For example, the stringent drug testing rules the U.S. Food and Drug Administration (FDA) require and the anti-dumping rules the U.S. Department of Commerce's International Trade Administration (ITA) enforce act as entry barriers for foreign firms (see Chapter 6 for a more detailed discussion of these entry barriers).

Some supranational institutions represent the interests of a smaller group of countries. For example, the European Commission acts in the interest of the 28 EU members as a whole rather than in the interest of individual member countries. The European Commission is the executive arm of the EU and is responsible for implementing the decisions of the European Parliament and the European Council. Of relevance to international business, the European Commission speaks for the EU at the World Trade Organization and is responsible for negotiating trade agreements on behalf of the EU.[22]

Effects of Globalization on Corporations

In returning to our discussion at the corporate level, we can see that almost all firms around the world are affected to some extent by globalization and, in turn, cause globalization by their activities abroad. Firms that have investment, operations, or marketing activities in several countries are called multinational corporations (MNCs) or multinational enterprises (MNEs). Firms from any country now compete with companies at home and abroad, and domestic competitors are competing on price by outsourcing or offshoring resources and services anywhere in the world. Often it is difficult to tell which competing products or services are of domestic or foreign origin. Examples abound—for example, do you really drive an American car?

> *Look at your vehicle identification number (VIN): If it starts with 1 it is made in America; 2, Canada; 3, Mexico; 4, anywhere else in the world. The only cars allowed to park in a UAW plant are those with VIN numbers beginning with 1 and 2.*[23]

Hondas are made in Ohio; Buicks are made in Germany. In contrast, Japan's Toyota Sienna model is far more American, with 90 percent local components being assembled in Indiana.[24] This didn't happen overnight. Toyota has been investing in North America for 20 years in plants, suppliers, and dealerships as well as in design, testing, and research centers. Toyota became the largest auto manufacturer in the world in sales in 2009.

It would seem that competition has no borders, with most global companies producing and selling more of their global brands and services abroad than domestically. Cisco Systems gets 55 percent of its revenues from overseas, and CEO John Chambers predicted that 70 percent