

HELEN DERESKY • STEWART R. MILLER

INTERNATIONAL MANAGEMENT

MANAGING ACROSS BORDERS AND CULTURES | TEXT AND CASES

10TH EDITION



International Management

Managing Across Borders and Cultures

Text and Cases

TENTH EDITION

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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.
Helen*

*To my wife, Tracy, and son, Matthew,
for their constant encouragement and unending love.
Stewart*

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Preface

International Management: Managing Across Borders and Cultures explores how recent developments and trends within a hypercompetitive, digitally driven global economy present managers with challenging situations. Companies seeking to operate overseas are confronted with varied and dynamic environments in which they must accurately navigate 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 their ability to carry out the company's strategy within the context of the host country's business practices.

NEW TO THIS EDITION

This edition has 11 chapters, with a 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, events, and global developments and includes examples of companies around the world from the popular business press such as *Financial Times*, *Wall Street Journal*, *Fortune International*, and *Bloomberg Businessweek*. The following section summarizes specific features and changes:

- **Integrative case:** A new comprehensive case in the Integrative section “IKEA’s Challenges in Russia”
- **Comprehensive cases:** All the comprehensive cases are new.
 - Part 1, Case No. 1. Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?
 - Part 1, Case No. 2. Enrich, Not Exploit: Can the New CSR Strategy Help Body Shop Retain Its Glory?
 - Part 2, Case No. 3. Cross-Cultural Challenges for a Singaporean Expatriate in Zurich
 - Part 2, Case No. 4. Anuj Pathak Returns to India
 - Part 3, Case No. 5. Amazon.com in China: Can Elaine Chang Crack the Chinese Market?
 - Part 3, Case No. 6. Souq.Com and the Battle for the Future of E-Commerce in the MENA Region
 - Part 3, Case No. 7. Coming to America: A Successful Japanese Acquisition in Global Business
 - Part 4, Case No. 8. Daimler China: Facing a Media Firestorm
 - Part 4, Case No. 9. Cirque du Soleil’s Global Human Resource Management Practices
- **Chapter-end case studies:** There are nine new chapter-end case studies. These help the students to refocus on the salient, important, and key contents of the chapter in a real-world scenario.
 - Chapter 1. Harley-Davidson Sees \$120m Hit from Tariffs This Year
 - Chapter 2. Facebook Faces Fresh Probe after Photo Leak
 - Chapter 4. Italy’s D & G in China: Fashion Show Canceled in Shanghai Following Scandal

- Chapter 5. India’s E-Commerce Crackdown Upends Big Foreign Players
 - Chapter 6. How UK Businesses Are Planning—or Not—for a No-Deal Brexit
 - Chapter 7. IKEA Finally Opens in India—Minus the Meatballs
 - Chapter 8. Renault and Nissan Attempt to Ease Tension with New Board
 - Chapter 10. Expat Tax Break for Brexit Bankers: FT Readers Respond
 - Chapter 11. How to Bring Cross-Cultural Teams Together
- **Chapter-opening profiles:** There are eight new opening profiles, which draw the student’s attention to the chapter contents with a short example, such as “The Impact of Social Media on Global Business,” and “Citi Sets Post-Brexit Frankfurt Trading Hub in Motion.”
 - All of the “**Comparative Management in Focus**” sections have been revised and updated. For example, “Global Companies Take Advantage of Growth Opportunities in Africa” now examines all of Africa rather than just South Africa.
 - All of the “**Management in Action**” boxes have been replaced or updated. For example, “‘Impact Beyond Numbers’—GoodWeave’s Global Solution to Child Labor,” “A Guide to (Mis)communication,” and “Spotify’s Plan to Beat Apple.”
 - Coverage on geopolitical developments, such as Brexit and the tariff war with China, and their effects on strategy has been added throughout the tenth edition. Such discussions highlight the dynamic nature of the global manager’s job.

CHAPTER-BY-CHAPTER UPDATES

Part I: The Global Manager’s Environment

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

- New Opening Profile: Small Businesses Steel Themselves for No-Deal after Brexit
- New Management in Action (MIA): Google to Set Up German Team to Tackle Privacy and Safety Issues
- New Under the Lens (UTL): South-East Asia Wakes Up to Power of Corporate Competition
- Updated Comparative Management in Focus (CMF): China Loses Its Allure
- Updated Case: Harley-Davidson Sees \$120m Hit from Tariffs This Year
- Added and updated material on regional economic groups
- New section, “Developing Skills to Enhance Your Career”

CHAPTER 2 MANAGING INTERDEPEN- DENCE: SOCIAL RESPONSI- BILITY, ETHICS, SUSTAIN- ABILITY

- New Opening Profile: Samsung Finally Apologises to Its Workers around the World Struck Down by Disease
- New UTL: SAP Alerts US to South Africa Kick-back Allegations
- Revised CMF: Doing Business in China— Censorship, Human Rights and the Challenge for Multinationals
- New UTL: Volkswagen under the Spotlight
- New UTL: Specialty Products, Support, and Shared Value Are Key to Success: India
- New MIA: ‘Impact Beyond Numbers’—GoodWeave’s Global Solutions to Child Labor
- New End Case: Facebook Faces Fresh Probe after Photo Leak
- New section on ethics in uses of technology—censorship and privacy

Part 2: The Cultural Context of Global Management

CHAPTER 3 UNDERSTANDING THE ROLE OF CULTURE

- New UTL: Seoul Fights Back against Workaholic Culture: Labour Law
- New MIA: A Cultural Revolution Is Changing India, One Open-Plan Office at a Time: Office Life Modernisation
- New section, “Consequence or Cause?”
- Expanded coverage of culture’s effects on management
- Inclusion of the Culture Classification Model (task versus relationship orientation)
- Updated coverage of the connection between the Internet and culture

CHAPTER 4 COMMUNICATING ACROSS CULTURES

- New Opening Profile: The Impact of Social Media on Global Business
- New UTL: Native English Speakers Must Learn How They Come Across
- New MIA: A Guide to (Mis)communication
- New End Case: Italy’s D & G in China: Fashion Show Canceled in Shanghai Following Scandal
- New sections on trust in the digital age and second language use

CHAPTER 5 CROSS-CULTURAL NEGOTIATION AND DECISION MAKING

- New Opening Profile: Hitachi Looks for Deal with ABB on Power Grids Business
- New UTL: Ryanair Secures UK Licence in Preparation for No-Deal Brexit
- New MIA: Spotify’s Plan to Beat Apple: Sign the Rest of the World
- New End Case: India’s E-Commerce Crackdown Upends Big Foreign Players
- New section on negotiating styles and dealing with translators

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

CHAPTER 6 FORMULATING STRATEGY

- New Opening Profile: Why Ford Is Stalling in China while Toyota Succeeds
- New MIA: Why Dyson Is Shifting Its HQ to Singapore
- Updated CMF: Global Companies Take Advantage of Growth Opportunities in Africa
- Updated and Revised MIA: Strategic Planning for Emerging Markets
- New UTL: Revolut’s Russian Founder Stirs Up Lithuania’s Fintech Debate
- New End Case: How UK Businesses Are Planning—or Not—for a No-Deal Brexit
- Revised section on transnational strategies
- New section on the Strategy Diamond to help with formulating strategies
- New sections of liability of foreignness and foreign direct investment decisions under uncertainty
- Expanded section on e-business and born globals

- Expanded, revised feature on strategic planning for emerging markets
- Updated data and charts on global Internet usage and global services
- New features and updated examples focusing, among others, on Singapore, Africa, Lithuania, and China as well as features on how the uncertainty from Brexit affects the strategic decision of multinational companies

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

- New Opening Profile: Alibaba to Set Up Online Retail Service in Russia
- Updated CMF: Joint Ventures in the Russian Federation
- Revised and Updated UTL: Breaking Down Barriers for Small or Medium-Sized Enterprises (SMEs)
- New UTL: Ford to Use Blockchain in Pilot to Trace Cobalt Mined in Congo
- Updated MIA: Infosys’s Path from Emerging Start-up to Emerging MNC
- New End Case: IKEA Finally Opens in India, Minus the Meatballs
- New sections regarding implementing strategies for equity and nonequity strategic alliances and wholly owned subsidiaries
- Updated and expanded discussion of motivations and benefits of global and cross-border alliances
- New section on trends regarding labor and supply chain sourcing, which provide further updates on issues facing managers

**CHAPTER 8
ORGANIZATION STRUC-
TURE AND CONTROL
SYSTEMS**

- New Opening Profile: Citi Sets Post-Brexit Frankfurt Trading Hub in Motion
- New UTL: Volkswagen Makes Sweeping Changes to Management and Structure
- New UTL: Unilever Backs Down on Plan to Move Headquarters from UK
- New UTL: Yum China Battles McDonald’s in China
- New End Case: Renault and Nissan Attempt to Ease Tension with New Board
- New sections on dual headquarters and business groups
- New section, “Teams as a Global–Local Structure”
- New sections on organizational structure in the digital economy and digital organizational readiness

Part 4: Global Human Resources Management

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

- Updated Opening Profile: Staffing Company Operations
- Updated UTL: Tata’s Staffing Challenges in the United States
- New UTL: Expatriate Employees Struggle to Readjust to Old Lives
- Updated MIA: Starbucks’ Java Style Helps to Recruit, Train, and Retain Local Managers in China
- Updated research information and focuses on the “war for talent” around the world, in particular the competition for talent in emerging markets
- Updated information on the role of IHRM in global strategies, staffing for global operations, and training host-country nationals

**CHAPTER 10
DEVELOPING A GLOBAL
MANAGEMENT CADRE**

- Updated Opening Profile: The Expat Life
- New UTL: Should I Stay or Should I Go? Overseas Jobs Demand the Extra Mile
- New MIA: The Emergence of a Virtual Multinational Enterprise
- New UTL: German Manufacturer to Close Two UK Plants
- Updated CMF: Labor Relations in Germany
- New End Case: Expat Tax Breaks for Brexit Bankers: FT Readers Respond
- Expanded and updated sections, “Global Management Teams,” “Expatriate Career Management,” and “The Role of Women in International Management”
- Updated information on the role of organized labor around the world and its impact on strategy and human resources management.
- New feature on best practices for virtual multinational companies
- New survey results regarding expatriate retention and the roles of their families
- New feature examining the role of expatriates’ careers in knowledge transfer to the firm

**CHAPTER 11
MOTIVATING AND LEADING**


- New Opening Profile: Motoi Oyama of Asics: The Globally Minded Shoe Ambassador
 - New UTL: Bad Bosses Are Making the UK’s Productivity Puzzle Worse
 - New UTL: Japanese Boards Move to Open Up to Overseas Executives
 - New Under the Lens: French Companies Lead the Way on Gender Diversity
 - Updated MIA: Leadership in a Digital World
 - New End Case: How to Bring Cross-Cultural Teams Together
 - Updated and expanded sections on reward systems, culture, and job motivation as well as the global leader’s role and environment
 - Updated section on leadership in a digital world
-

SOLVING TEACHING AND LEARNING CHALLENGES

Most students who take the International Management course do not yet have the international exposure and the understanding of the cultural differences in which a business must operate. This text guides students in what actions to take and how to develop the requisite skills to formulate and implement international strategies, to conduct effective cross-national interactions, and to manage daily operations in and with foreign subsidiaries as well as with global allies and partners. This text takes the perspective of managers around the world so that students can learn how to work effectively in cross-national teams and how to combine best practices for the local environment in which the firm is operating.

To ensure students understand the change in decision making due to cultural shifts, this text uses the following features to keep the attention of students by challenging them to think critically about the practical applications of the text.

Cases and the term project:



ICMR
IBS Center for Management Research
www.icmrindia.org

Case 5 Amazon.com in China: Can Elaine Chang Crack the Chinese Market?

This case was written by Koti Vinod Babu, under the direction of Debpratin Purkayastha, IBS Hyderabad. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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To order copies, call +91 9640901313 or write to IBS Center for Management Research (ICMR), IFHE Campus, Donthanapally, Sankarapally Road, Hyderabad 501 203, Telangana, India or email: casehelpdesk@ibsindia.org www.icmrindia.org

About Amazon

Amazon was founded in June 1994 by Jeff Bezos (Bezos). In June 1995, he launched his online bookstore, Amazon.com. It soon increased its product portfolio and became a force to reckon with in retailing. Analysts felt that by offering low prices, a wide selection, and a great customer experience, Amazon was able to drive traffic (customers) and increase

“China is a very important market for Amazon. We’re committed to growing our business here.”

Part end cases help students to recognize, to provide analysis, and make and implement decisions in complex situations experienced by real companies.

Chapter end cases help students to recognize and apply the chapter concepts in a specific situation.

The new **comprehensive case** in the Integrative section—“IKEA’s Challenges in Russia”—is especially informative and challenging because it covers a range of topics from the entire book.

PART 5: Integrative Case



ICMR
IBS Center for Management Research
www.icmrindia.org

Case 10 IKEA’s Challenges in Russia

This case was written by Hadiya Faheem, under the direction of Debpratin Purkayastha, IBS Hyderabad.¹

“[. . .] not all companies succumb to corruption. The Swedish furniture retailer IKEA has steadfastly refused to bribe Russian officials.”²


—ALEXANDER HILL, PRESIDENT EMERITUS OF INTER-VARSITY CHRISTIAN FELLOWSHIP³ US, IN 2017

“Ikea is clearly quite successful in Russia but in the early days when they entered the market they took the expres-

taking kickbacks from the rental company for inflating the rental price of the service. Consequently, IKEA was rebuked in court for a breach of the rental contract. While the bureaucratic system added to its troubles in Russia, there were also times when local or federal authorities were supportive, which enabled the company to get things done faster than in any other country in the world.

Over the years, IKEA grew and experienced success with its stores in Russia. Some of its stores went on to become the

The popular **Integrative Term Project** has been retained, providing the opportunity for students to pull together the concepts and management decisions and actions covered in the book. This end-term project challenges students to create teams that take on the role of top management in a situation that requires applying the entire content of the course.



Comparative Management in Focus

Negotiating with the Chinese

The Chinese way of making decisions begins with socialization and initiation of personal guanxi rather than business discussion. The focus is not market research, statistical analysis, facts, Power-Point presentations, or to-the-point business discussion. My focus must be on fostering guanxi.⁴⁰

SUNNY ZHOU, GENERAL MANAGER OF KUNMING LIDA WOOD AND BAMBOO PRODUCTS

With the increasing business being conducted in China (see Map 5-1) or with Chinese allies or other companies, business practices there are now showing more similarity to those in the West. However, when Westerners initiate business negotiations with representatives from

Comparative Management in Focus—Allows the students to apply chapter concepts to a specific country or region to gain further insight into comparative management. These provide in-depth comparative applications of chapter topics in a broad range of specific countries or regions, thus helping the students to understand cultural differences—what applies in one culture may need a different approach elsewhere.



MANAGEMENT IN ACTION

*Spotify's Plan to Beat Apple: Sign the Rest of the World*⁷⁶

Few could be happier about the synergy between music streaming and Latin America than Spotify — whose stock price, and arguably its future, depend on repeating the same trick in new markets. Spotify needs to keep adding subscribers to make Wall Street happy as it battles Apple, one of the richest companies in the world, to dominate how people listen to music. There is a finite amount of affluent 20-somethings in western cities to pay Spotify \$10 a month for its services. However, after growing at a torrid clip in Europe and the US, investors are betting that Spotify can sign up hundreds of millions of people in what the Swedish company bluntly calls the “Rest of the World”.

Management in Action—Helps the students understand through real examples of managing regarding the concepts in the chapter. These examples, often gleaned from the press, demonstrate to students what managers actually do to address the kinds of situations and challenges in the chapter.



UNDER THE LENS

*South-east Asia Wakes Up to Power of Corporate Competition*⁴⁸

When Mahathir Mohamad reprised his role as Malaysia’s prime minister in May [2018], he brought along a lengthy list of promises. Vows to root out corruption and review bloated China-backed infrastructure projects dominated the headlines. But Mr Mahathir is also following up on a less-publicised, but no less ambitious, pledge.

He wants to break up monopolies.

Governments across south-east Asia are with him, especially after a loud wake-up call earlier this year. The regional merger of ride-hailing groups Grab and Uber made it clear that authorities were

Under the Lens—Helps students to gain further insight into an important topic in the chapter by focusing on a specific subject in a specific situation. This feature can then “tune in” the student to real situations that demonstrate the chapter challenges. One of the Under the Lens is “*Should I Stay, or Should I Go? Overseas Jobs Demand the Extra Mile*” from Chapter 10.

DEVELOPING SKILLS TO ENHANCE YOUR CAREER

For students to succeed in a rapidly changing job market, they should be aware of their career options and how to go about developing a variety of skills. Chapter 1 includes a new section on *Developing Skills to Enhance your Career*. It focuses on five critical employability skills: (1) communication, (2) critical thinking, (3) collaboration, (4) knowledge application/analysis, and (5) business ethics/social responsibility. Specifically, it highlights how the material in this textbook helps to develop skills in each of these areas to prepare students for success in their professional endeavors. Each chapter offers many opportunities to acquire and refine skills that can lead to professional success in the digital economy. For example, the Opening Profiles, Management in Action sections, Under the Lens sections, and Comparative Management in Focus sections provide an opportunity to engage the students with real-world situations and challenges facing multinational firms and their leadership teams. Experiential learning exercises offer the opportunity to learn by doing—often a hands-on assignment involving a group. The case studies entail real-life situations of people and firms—some of which involve best practices while others reveal negative consequences. The case studies provide students with valuable opportunities to engage in critical thinking, apply key frameworks, develop recommendations, and even use breakout sessions in which students can refine their ideas and analytical skills in a team setting. Moreover, we include some cases that emphasize the digital economy (e.g., blockchain) while addressing a social responsibility issue (e.g., work conditions). All five employability skills are essential—whether you seek an international management position or a functional role.

Employability Skills Matrix

	Critical thinking	Communication	Collaboration	Knowledge Application and Analysis	Social Responsibility
Opening Profiles	✓	✓		✓	
Management in Action	✓	✓		✓	✓
Under the Lens	✓	✓		✓	✓
Comparative Management in Focus	✓			✓	✓
Application exercises	✓	✓	✓	✓	
Experiential exercises	✓	✓	✓	✓	
Case studies	✓	✓	✓	✓	✓

INSTRUCTOR RESOURCES

For more information and resources, visit www.pearson.com.

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*—Helen Deresky &
Stewart R. Miller*

P A R T

1 The Global Manager's Environment

PART OUTLINE

CHAPTER 1

Assessing the Environment: Political, Economic, Legal, Technological

CHAPTER 2

Managing Interdependence: Social Responsibility, Ethics, Sustainability



1

Assessing the Environment

Political, Economic, Legal, Technological

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 as well as the war for talent around the globe
- 1-5.** To explore essential skills for developing your career as a manager in a multinational company

Opening Profile: Small Businesses Steel Themselves for No-Deal after Brexit¹

Graham Masarik is in the minority of Britain's small and medium-sized business owners. Little more than a month before the UK is due to leave the EU on March 29, he is preparing for a no-deal Brexit.²

Mr Masarik has moved most of the distribution operations for Eurocams, his auto parts company, to the Netherlands to avoid the import duties and standards checks that will accompany a no-deal departure from the EU.

The Weston-super-Mare-based group has factories in China, so for some products the switch means bypassing Britain entirely. Already 95 per cent of Eurocams' annual revenues of £5m come from Europe.

"[This] will mean closing down a majority of what I've got here and going to Holland—not something I wanted to do but it is out of my hands," said Mr Masarik. "You can't wake up on 30 March and find that you have no business."

Smaller UK companies' preparations for Brexit vary widely. Some, such as Shiner, a Bristol-based manufacturer of skateboards and related goods, are trying to stockpile as much as they can in the EU ahead of March 29—and are likely to set up legal entities in the bloc.

Others, such as Albion Stone, a group that exports Portland stone, a prestigious building material, are stockpiling in the UK—at considerable cost—and thinking about scrapping sales to the EU entirely.

But many companies lack the resources or the information to prepare for a no-deal.

Allie Renison, head of EU and trade policy at the Institute of Directors, said that only 14 per cent of the business group's members were "very prepared" for such an outcome. "At the moment, there is still far too much information missing for most small and medium enterprises to be ready for no-deal on 29 March," she said.

With Prime Minister Theresa May still looking for a deal with Brussels that will win majority support in the House of Commons, companies have to prepare for a host of uncertainties.

“The reality is that yesterday the first freighter that will arrive after Brexit set off from Felixstowe with no clarity on the terms on which its cargo will arrive,” said Greg Clark, business secretary, on Tuesday. “No one should regard waiting to the last moment . . . as acceptable.”

But neither businesses nor politicians know whether there will be a deal or no-deal, nor indeed whether Brexit will be delayed to allow both sides to adjust.

Matt Griffith, policy director at Business West, a group that helps companies in the west of England, said most groups had assumed that policymakers would give them enough time to adapt to a no-deal Brexit, but now recognise this was “dangerously optimistic.”

“Because the government have not decided what they are going to do, businesses like us are having to spend hundreds of thousands of pounds [on storage],” said Charlie Allen, managing director at Shiner.

“By March 30 [2019] we need to transfer a lot of stock to third-party logistics, especially the stock with high duty.”

Mr Allen noted that if Britain leaves the EU without a deal, clothes may be subject to tariffs of about 12 per cent, and that he needs to give six weeks’ notice to logistics partners—a milestone that has already passed.

Speaking before Mrs May announced a deadline of March 12 [2019] to hold a “meaningful vote,” Mr Allen said: “Every day makes a difference; they need to have decided what the outcome is by the end of February.” He added that delaying the Brexit date “would just prolong the uncertainty.”

He said EU authorities had already warned the company that, unless it had a legal presence in the bloc, any websites with the .eu suffix would be taken down.

“We will have to pay for the pick and pack operation in Germany or Holland,” he added. “The work will be done on mainland Europe instead of in the UK. This means less jobs in Bristol.”

Last autumn the government published technical notices to help businesses prepare for a no-deal, but these were widely derided as lacking enough detail for any practical planning purposes. In October the CBI, the employers’ organisation, called for a “one-stop shop” of advice for businesses trying to prepare for Brexit. This has not materialised.

Many businesses are still unaware of what information is available. The British Exporters Association says it is directing its members to online resources such as the government’s “Prepare your business for EU exit” website.

Source: © The Financial Times Limited 2019.

As evidenced in the opening profile, managers in the twenty-first century are being challenged to operate in an increasingly complex, global economy in which some regions undergo periods of uncertainty, thus requiring these managers to be more responsive yet more flexible. Uncertainty abounded after the referendum on **Brexit** (for **Britain** to **exit** the European Union (EU)). British lawmakers finally approved exiting from the EU in January 2020. And, of course, the **digital economy** provides a threat to some companies but offers opportunity to others. Clearly, those involved in international and global business have to adjust their strategies and management styles to the global disruption brought on by the digital economy as well as other global developments.

As well as the disruption driven by the digital economy, typical challenges that managers face involve politics, cultural differences, global competition, terrorism, technology, sustainability, and economic uncertainties. For example, changes to the European Union (Brexit) and the free trade agreement between Mexico, Canada, and the United States have led many multinational companies to reassess their strategies and investment decisions in Europe and the Americas as of the writing of this text.

In addition, the opportunities and risks of the global marketplace increasingly bring with them the societal obligations of operating in a global community. Many companies face increased scrutiny from investors and nongovernment organizations (NGOs) to provide a thorough account of the environmental and social implications of their supply chains. For instance, the London Metal Exchange has supported a consortium of metals traders and financial institutions to build a blockchain-based system to track the trade of physical metal. Through digital technology—a blockchain-based system—“you know where your metal is, you have proof of your metal, but

nobody can see what your metal is and where your metal is,” according to Matt Chamberlain, chief executive of the London Metals Exchange. Managers in those companies are struggling to find ways to balance their social responsibilities, their reputations, 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 digital economy, which are rapidly changing the dynamics of competition and operations.

International management (IM), then, is the process of developing strategies, designing and operating systems, and working with people around the world to ensure sustained competitive advantage. Corporate leaders need to instill a global mindset with their employees while navigating the diverse competitive landscapes as well as the uncertainty associated with the digital economy. Even more, international managers need to consider how to recruit, train, and develop the new generation of talent from around the world. These management challenges are shaped by the prevailing conditions and ongoing developments in the world, as outlined in the following sections and subsequent chapters.

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

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

The types of events described in the opening profile illustrate the interdependence of the business, politics, trade, finances, and technological environment 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.”³ That was then, but this is now—and some are now arguing that the world is no longer so flat, such that the pace of globalization has slowed and, in some instances, has declined. This retreat is resulting from political crises, cybertheft, protectionism, and increasing trade barriers.⁴ 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 open them to foreign companies, in particular multinational corporations (MNCs).⁵

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.”⁶ Ghemawat posits that we are in an “unevenly globalized world” and that business opportunities and threats depend on the individual perspective of country, company, and industry.⁷ 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 having, ironically, a ripple effect of globalization.⁸

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 six key global trends that provide both challenges and opportunities for companies to incorporate into their **strategic planning**:⁹

- 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 stability¹⁰
- The growing number of emerging-market companies embracing digital technologies

Globalization and Emerging Markets

There are growing concerns about rising political and **economic risks** in developed economies. Despite wariness, MNC leaders remain relatively positive on the global economy. Moreover, FDI levels fell again in 2018. According to research by the A. T. Kearney Company on the **foreign direct investment (FDI)** intentions and preferences of the leaders of 300 top companies in various industry sectors spanning six continents, companies view foreign direct investment (FDI) as crucial to profitability and sustainable competitive advantage. Indeed, 77 percent of MNC leaders indicated that FDI will grow in importance in the years ahead.¹¹ These corporate leaders also viewed FDI as a means to achieve localization, which implies shifting managers, production, operations, and/or marketing to local markets. The Kearney report reveals some paradoxes as corporate leaders affirm that they will be increasing foreign investment, yet the actual levels of FDI do not reflect that affirmation.

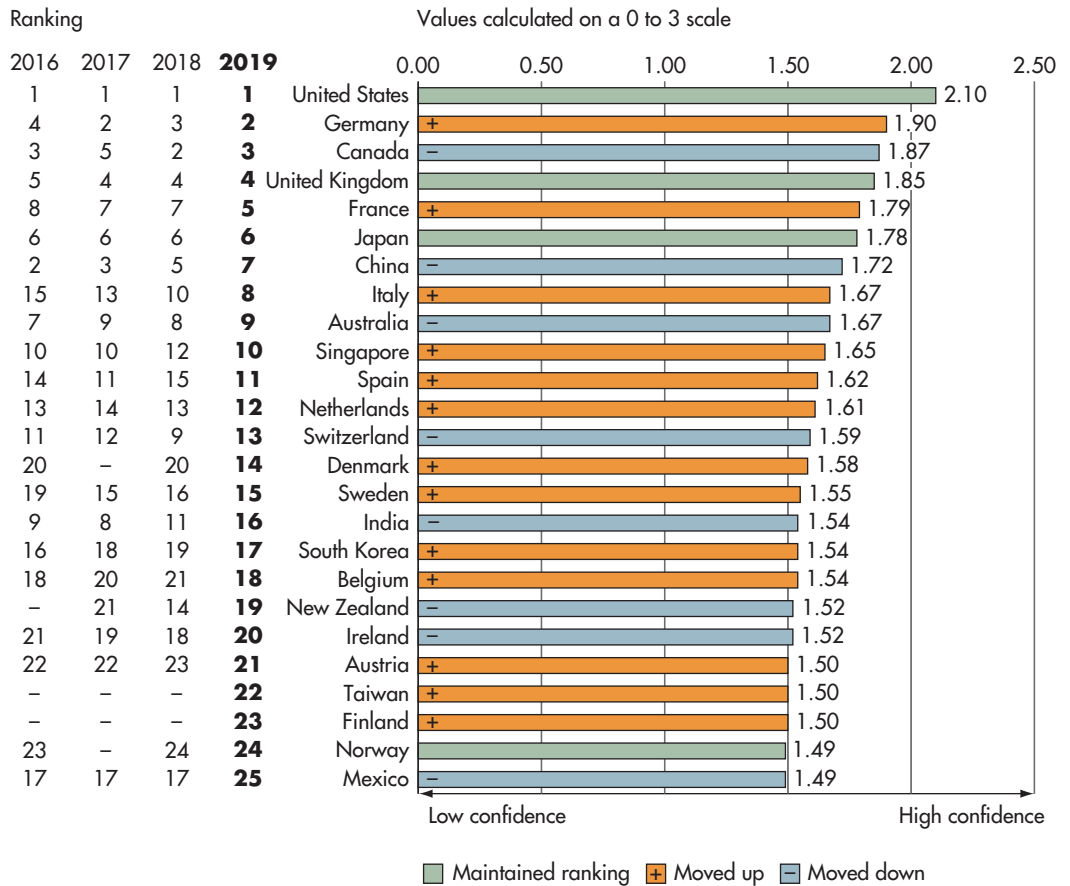
Exhibit 1-1 shows the 2017–2019 results of the A. T. Kearney Foreign Direct Investment Confidence Index. The exhibit shows the top 25 countries in which those executives have confidence for their investment opportunities. Kearney’s results show that the United States continues to be in the lead since 2017 and up from 4th in 2012. China has slipped from 3rd in 2017 to 7th in 2019. Germany, Canada, and the United Kingdom ranked 2nd, 3rd, and 4th respectively. India has dropped from 8th in 2017 to 16th in 2019. There are two other notable declines in ranking: Mexico dropped from 17th to 25th while Brazil dropped from 16th to unranked during the 3-year period.¹² Overall, the results show renewed confidence in the economic recovery in the United States and Europe and that emerging economies are improving their rankings, but not enough to be in the top 25 (see Map 1-1).

Although the United States remains dominant in many new-age industries such as nanotechnology and biotechnology, emerging markets continue to grow their countries’ economies, and, in turn, will provide growth markets for the products and services of developed economies. It is clear also that the phenomenon of rapidly developing economies continues.

The Boston Consulting Group’s (BCG) 2018 list of Global Challengers shows evidence of the growing number of companies from emerging markets: companies that are growing faster 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.¹³ Examples of the now more mature emerging giants are, from China, Huawei Technologies, Lenovo Group, and Baosteel;

EXHIBIT I-1 2019 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: 2019 FDI Confidence Index, © A. T. Kearney, 2019. All rights reserved. Reprinted with permission.

from India, Infosys Technologies, Tata Group, and Bharti Airtel; from Brazil, Embraer and Votorantim Group; from Mexico, Group Bimbo; from Russia, Gazprom; and from Indonesia, Bumi Resources—to name a few.

Further evidence that *globalization* is the increase in the number of emerging-market companies acquiring established large businesses and brands from the so-called developed countries. 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 China-based Tencent, which tends to acquire minority stakes in companies whose products can link to its WeChat and WeChat Pay platforms. Tencent offers those companies the opportunity to reach over one billion users.

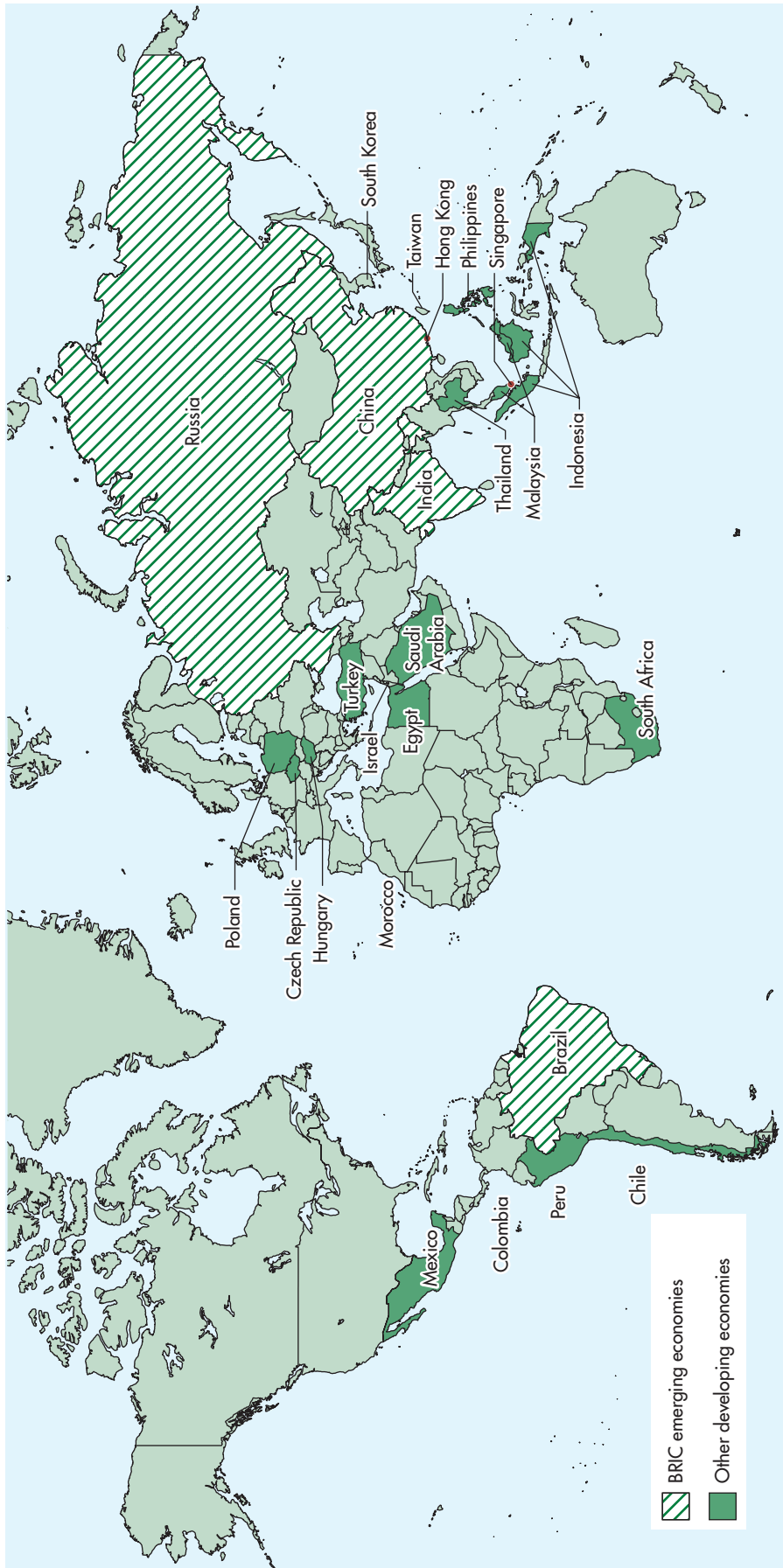
It's almost impossible to succeed in China retail without Alibaba or Tencent.

JAMES ROOT, HONG KONG-BASED PARTNER AT BAIN & CO.¹⁴

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, have propelled globalization. Now, digitally

MAP I-1 Emerging Economies



oriented multinational companies from China, India in particular, represent the new drivers of economic growth around the globe.¹⁵

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 Indian company Flipkart by U.S. retailer, Walmart.

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.¹⁶

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 Trade¹⁷

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) requires and the anti-dumping rules the U.S. Department of Commerce's International Trade Administration (ITA) enforces 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 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.¹⁸

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 United Auto Workers (UAW) plant are those with VIN numbers beginning with 1 and 2.¹⁹

Honda vehicles, for example, are manufactured in many markets outside of Japan: Argentina, Australia, Bangladesh, Brazil, Canada, China, France, India, Indonesia, Italy, Malaysia, Mexico, Pakistan, Peru, Philippines, Taiwan, Thailand, the United Kingdom, the United States, and Vietnam.²⁰

Some companies have made multiple investments in particular countries. For example, Japan's Toyota has been investing in North America for 20 years in plants, suppliers, and dealerships as well as in design, testing, and research centers. As of 2019, it makes nine vehicles in the United States. For example, its Sienna model is assembled in Indiana. The Camry and Lexus models are made in Kentucky, while the Tundra is made in Texas.

It would seem that competition has no borders, with many global companies producing and selling a substantial portion of their global brands and services abroad than domestically. In 2018, Cisco Systems received 48.3 percent of its revenues from overseas. General Electric, however, derives 66.5 percent of its US\$121 billion from overseas markets. Nestlé has 98.6 percent of its sales outside of its home market, with 42 percent of its sales coming from emerging markets. Coca-Cola has 64 percent foreign sales, while Procter & Gamble has 59 percent.²¹

The Tata Group, a conglomerate originating in India, generates over 60 percent of its revenues from its operations in over 100 international markets. In Europe, Tata has 19 companies across the continent with over 60,000 employees. In North America, it operates 13 companies with over 35,000 employees. In the Asia-Pacific region, Tata operates 16 companies consisting of over 7,000 employees. In particular, Tata has over 3,000 employees in both Singapore and China. Tata has a sizable presence in the Middle East with more than 20 companies and 10,000 employees.²²

Investment by global companies around the world means that this aspect of globalization benefits developing economies—through the transfer of financial, technological, and managerial resources as well as through the development of local allies that later become self-sufficient and have other operations. Global companies are becoming less tied to specific locations, and their operations and allies are spread around the world as they source and coordinate resources and activities in the most suitable areas and as technology facilitates faster and more flexible interactions and greater efficiencies.

It is essential, therefore, for managers to look beyond their domestic market. If they do not, they will be even further behind the majority of managers who have already recognized that they must have a global vision for their firms, beginning with preparing themselves with the skills and tools of managing in a global environment. Companies that desire to remain globally competitive and expand their operations to other countries must develop a cadre of top management with experience operating abroad and an understanding of what it takes to do business in other countries and work with people of other cultures. Many large firms around the world are getting to the stage of evolution known as the stateless multinational, when work is sourced wherever it is most efficient; the result of this stage of development is that:

*[F]or business leaders, building a firm that is seamlessly integrated across time zones and cultures presents daunting obstacles.*²³

The above quote continues to resonate with multinational companies seeking to balance being global and local simultaneously. For example, India's largest technology and ecommerce start-up firms are based in its biggest cities—Bangalore and Greater Delhi serve as home to most of them. Yet Alibaba's Jack Ma told an Indian entrepreneur, "you must focus on the smaller cities and towns—they're untapped." Indeed, ecommerce growth is now fastest outside India's eight largest cities. Indian startup firms are facing increased competition from multinationals such as Amazon, which has observed the relatively higher growth rates in smaller Indian towns and cities.²⁴ According to Kishore Thota, an Amazon executive, "For a year or so we've been seeing this huge growth differential from outside the metros," he said. In light of the growth of online purchasing, Indian ecommerce users remain wary of online payment mechanisms, so Amazon offers them a cash payment option upon delivery. Needless to say, cash is the preferred payment choice for most Indian online transactions, suggesting that multinational companies—especially digitally oriented ones—need to understand local customers or miss huge growth opportunities.²⁵ For example, in 2018, Amazon created a Hindi version of its platform.

Small and Medium-Sized Enterprises (SMEs)

SMEs are also affected by and, in turn, affect globalization. They play a vital role in contributing to their national economies—through employment, new job creation, development of new products and services, and international operations, typically exporting. The vast majority (about