

GLOBAL
EDITION



International Management

Managing Across Borders and Cultures

TEXT AND CASES

EIGHTH EDITION

Helen Deresky

ALWAYS LEARNING

PEARSON

INTERNATIONAL MANAGEMENT

Managing Across Borders and Cultures

TEXT AND CASES

Eighth Edition

HELEN DERESKY

Professor Emerita, State University of New York–Plattsburgh

Global Edition

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*To my husband, John, and my children, John, Mark, and Lara,
for their love and support*

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Preface

EIGHTH EDITION CHANGES

- **Comprehensive cases: 11 of the 12 comprehensive cases are new and current; one is a popular one from the seventh edition.** 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 an interactive Ethics Role Playing Case.
- **Integrative Section: There are two new comprehensive cases in the Integrative section that are exciting because they cover topics from throughout the book: Mahindra and Mahindra, an “emerging” giant, and the Volkswagen-Suzuki breakup. In addition, the popular Integrative Term Project has been retained.**
- **A new feature box called “Under the Lens”** has been added—one or two in each chapter. This feature gives an in-depth look at important aspects of the chapter subjects, including, for example, “Doing Business in Brazil,” “How Feng Shui Affects Business,” “Negotiations and Decisions to Save the Eurozone System,” and “How SMEs Can Internationalize.”
- **Maps added throughout.**
- **Chapter-Opening Profiles: Nine of the 11 Opening Profiles are new, keeping two favorites.** Examples are “The Globalization of Risk,” and “The Impact of Social Media on Global Business.”
- **Chapter-Ending Cases: There are eight new chapter-ending cases, keeping three favorites.** Examples are “Apple’s iPhone – Not ‘Made in America,’” and “Facebook’s Continued Negotiations in China.”
- 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.
- New coverage of the global economic crisis and its effects on strategy has been added throughout the eighth edition.
- Updated coverage of developments in globalization and its growing nationalist backlash.
- **Expanded and updated coverage of management issues regarding emerging market economies—in particular China, India, Brazil, and Russia.**
- Expanded section on strategies for emerging markets.
- **Added and expanded sections on small businesses and strategies for SMEs.**
- **Expanded sections on “born global” companies and on strategy models.**
- NEW research data added on expatriate assignments and relocation.

The eighth edition of *International Management: Managing Across Borders and Cultures* prepares students and practicing managers for careers in a dynamic global environment wherein they will be responsible for effective strategic, organizational, and interpersonal management. While managing within international and cross-cultural contexts has been the focus of this text since the first edition, the eighth edition portrays the burgeoning level, scope, and complexity of international business facing managers in the twenty-first century. The eighth edition explores how recent developments and trends within a hypercompetitive global arena present managers with challenging situations; it guides the reader as to 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 foreign subsidiaries. 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 the ability to carry out the company's strategy within the context of the host country's business practices.

In the eighth edition, cross-cultural management and competitive strategy are evaluated in the context of global changes—including the rapidly growing influence of technology, e-business, and social media on business strategy and operations, including “born globals”; the “Eurozone crisis”; the increasing trade among the Americas; and the emerging markets and rapidly growing economies in Asia—that require new management applications. In the eighth edition we have added focus on how rapidly developing economies, in particular the “BRICS,” present the manager with challenging strategic decisions in an increasingly “flat world,” as posited by Thomas Friedman. In addition, the eighth 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*, Eighth 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.

EIGHTH EDITION FEATURES

- **Streamlined text** in eleven 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. The eighth edition has been revised to reflect current research, current events, and global developments, and includes company examples from the popular press. The following section summarizes specific features and changes:

NEW COMPREHENSIVE CASES IN EIGHTH EDITION

1. **An Ethics Role-Playing Case: Stockholders versus Stakeholders (Global/Sri Lanka)**
2. **BlackBerry in International Markets (Global/Middle East)**
3. **Google's Orkut in Brazil: What's So Social About it? (Brazil)**
4. **MTV Networks: The Arabian Challenge (Saudi Arabia)**
5. **Alibaba in 2011: Competing in China and Beyond**
6. **Carrefour's Misadventure in Russia**
7. **Walmart's Expansion in Africa**
8. **Evaluating the Chrysler-Fiat Auto Alliance in 2012 (Italy/U.S./Global)**
9. **Foreign Investment in Chinese Banking Sector: HR Challenges (China)**
10. **Indra Nooyi: A Transcultural Leader (India/Global)**
11. **Mahindra and Mahindra (B): An Emerging Global Giant? (India Global)**
12. **After the Breakup: The Troubled Alliance Between Volkswagen and Suzuki (Germany/Japan)**

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: “The Globalization of Risk”

Updated Comparative Management in Focus (CMF): “China Helps Prop Up the Global Economy.

Updated Management in Action (MA): “Intel Brings Changes to Vietnam’s Economy and Culture”

New Box Feature—Under the Lens: Information Technology

New End Case: “Apple’s iPhone—Not “Made in America”

Chapter 1 has been revised and updated to reflect developments and events in global business. 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 developments in globalization and its growing nationalist backlash that resulted, in particular, from the global economic crisis and the Eurozone problems. We discuss the effects on global business of the rapidly growing economies of China and India and other emerging economies such as Brazil, Russia, and those in Africa; the globalization of human capital; 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: McDonald’s CSR Experience in China: Interview with Bob Langert, VP for Corporate Social Responsibility

New Under the Lens: Managing CSR in the Workplace

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

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

New MA: Recycling Lives—Social Entrepreneurship Breaking Down Barriers

End Case: Nike’s CSR challenge

Chapter 2, as indicated by the new 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. The chapter is updated throughout, with new examples, and has a new section on Ethics in Uses of Technology.

PART 2: The Cultural Context of Global Management

Chapter 3: Understanding the Role of Culture

Opening Profile: Adjusting Business to Saudi Arabian Culture

New Under the Lens: Religion and the Workplace

MA: Updated “India’s IT Industry Brings Cultural Changes”

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

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

End Case: Australia and New Zealand: Doing Business with Indonesia

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; and increased emphasis on CQ (cultural quotient). In particular, this chapter presents ways for managers to anticipate, understand, and therefore adjust to working with people in other countries; those ways include understanding the variables of culture through research and 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

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

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

New Under the Lens: How Feng Shui Affects Business

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

CMF: Communicating with Arabs

New Under the Lens: Google’s “Street View” makes Friends in Japan but Clashes with European Culture

New 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 Non-verbal Communication has been expanded in the eighth edition, along with the addition of three illustrative “Lens” sections.

Chapter 5: Cross-cultural Negotiation and Decision Making

New Opening Profile: Shiseido and Bare Escentuals—Cultural Conflicts in Negotiations

MA: Cultural Misunderstanding—The Danone-Wahaha Joint Venture in China Splits After Years of Legal Dispute

Revised and Expanded CMF—Negotiating with the Chinese

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

CMF: Decision Making in Japanese Companies

New End Case: Facebook’s Continued Negotiations in China.

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.

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

Chapter 6: Formulating Strategy

Opening Profile: Global Companies Take Advantage of Opportunities in South Africa

MA: 1time Airlines

New Under the Lens: China Limits Foreign Property Ownership

CMF: Expanded and Updated: Strategic Planning for Emerging Markets

New End Case: Search Engines in Global Business

Chapter 6 explains the reasons that firms choose to take their 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. The eighth 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. Discussion of cultural distance relative to strategic planning has been added. Throughout, there are new features and updated examples.

Chapter 7: Implementing Strategy: Strategic Alliances; Small Businesses; Emerging Economy Firms

New Opening Profile: From BP to Exxon: Beware the Alliance with the Bear!

New Under the Lens: Dancing with Gorillas: How SMEs Can Internationalize Through Relationships with Foreign Multinationals

CMF: revised and updated: Joint Ventures in the Russian Federation
New Under the Lens: Breaking Down Barriers for Small Business Exports
New Under the Lens: Global Supply Chain Risks—The Japanese Disaster
MA: Mittal’s Marriage to Arcelor Breaks the Marwari Rules
New End Case: The Nokia-Microsoft Alliance in the Global Smartphone Industry (Circa 2011)

Chapter 7, as indicated by the new title and the new features above, includes new sections regarding implementing strategies for small businesses and for emerging economy firms, as well as expanded coverage of implementing alliances. The revised CMF on JVs in the Russian Federation, as well as the feature on the global effects of the Japanese disaster in 2011, provide further updates on issues facing managers.

Chapter 8: Organization Structure and Control Systems

New Opening Profile: Tata’s Acquisition of Jaguar Land Rover
Updated Under the Lens: Samsung Electronics Reorganizes to Fight Downturn
Updated MA: Procter & Gamble’s “Think Globally–Act Locally” Structure—10 Years of Success
CMF: Changing Organizational Structures of Emerging Market Companies
New Under the Lens: FIFA—Restructuring for Governance Oversight of Ethics
New End Case: HSBC’s Global Reorganization and Corporate Performance in 2012

Chapter 8 further examines how to effectively implement strategy by setting up appropriate structural and control systems. The eighth edition gives updated text and 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. Issues of monitoring, controlling, and evaluating the firm’s ongoing performance is discussed.

PART 4: Global Human Resources Management

Chapter 9: Staffing, Training, and Compensation for Global Operations

Opening Profile: Staffing Company Operations in Emerging Markets
New Under the Lens: HSBC’s Staffing Challenges in the UAE
MA: Updated: Success! Starbucks’ Java Style Helps to Recruit, Train, and Retain Local Managers in Beijing
CMF: IHRM practices in various countries
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 eighth edition includes updated research information, in particular regarding the “war for talent” around the world, and new coverage of the staffing option called “inpatriates.”

Chapter 10: Developing a Global Management Cadre

Opening Profile: The Expat Life
New Lens: Expatriates’ Careers Add to Knowledge Transfer
MA: Updated: The Role of Women in International Management
New Under the Lens: Vietnam—The Union Role in Achieving Manufacturing Sustainability and Global Competitiveness
CMF: Updated: Labor Relations in Germany
New End Case: Expatriate Management in AstraZeneca.

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 the global management teams and virtual teams. In addition, this chapter brings new focus to

understanding the role of organized labor around the world and its impact on strategy and HRM. New survey results regarding expatriate retention and the roles of their families are examined, as well as a new feature examining the role of expatriates' careers in knowledge transfer to the firm.

Chapter 11: Motivating and Leading

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

CMF Updated: Motivation in Mexico

NEW Under the Lens: Global Leaders from India

MA: Leadership in a Digital World

NEW End Case: The Olympus Debacle—Western Leader Clashes with Japan's Corporate Leadership Style

Chapter 11 of the eighth edition has been updated with new examples and research, and a new feature on Global Leaders from India, 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 which illustrates the complexities of the leader's role in various contextual, stakeholder, and cross-border environments.

Additional Eighth 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** – Two new cases (Cases 11 and 12) incorporating a range of topics and locations covered in the text. These cases challenge 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, as well as illustrating the complexity of that role.
- **Integrative Term Project** outlined at the end of the text and providing a vehicle for research and application of the course content.

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1

PART

The Global Manager's Environment

PART OUTLINE

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Economic, Legal, Technological

World Map

Chapter 2

Managing Interdependence: Social
Responsibility, Ethics, Sustainability



Assessing the Environment

Political, Economic, Legal, Technological



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OBJECTIVES

1. To understand the global business environment and how it affects the strategic and operational decisions which managers must make.
2. To critically assess the developments, advantages, and disadvantages of globalization.
3. To review the role of technology in international business.
4. To develop an appreciation for the ways in which political, economic, legal and technological factors and changes impact the opportunities that companies face.
5. To discuss the complexities of the international manager's job.

OPENING PROFILE: THE GLOBALIZATION OF RISK¹

Firms' risk analysts were certainly scratching their heads going into 2012 after the confluence of events in 2011 caused such a global ripple effect of business risk. The World Economic Forum Global Risks 2012 Report (based on 469 social experts and industry leaders) highlighted the world's interconnected and rapidly developing socio-economic risks. The report points out that severe income disparity and chronic fiscal imbalances would be the top two risks facing business leaders and policy makers for 2012 and the next decade; it also raises the concern that those macro risks will reverse the gains of globalization. Contributing largely to those escalating risks, the global debt crisis continued unabated; in Europe, in particular, problems in major debtor countries such as Greece, Italy, and Ireland threatened to break up the eurozone and implode the euro. Leaders in stronger countries such as Germany and France struggled to put together a rescue plan. As the global recession, started in 2008, continued to eat away at business profits and people's jobs, homes, and lifestyles, the observation quoted below is still relevant.

A perilous global crisis of confidence has revealed both the scale and the limitations of globalization.²

People around the world made their fears known as they sought redress for their various situations. Most surprising were the massive "Arab Spring" protests, which spread like wildfire through social media and Internet technology. Their long-term effects are not yet known. Following those, the protest movement spread in the West and was known in the United States as the "Occupy" movement, in which people were protesting what they perceived as "Wall Street" excesses and income inequality.

It is clear that the global credit crunch has hit consumers and businesses alike as uncertainty about the future cripples spending and investment, and has a ripple effect around the world. Firms are reluctant to expand their business in troubled countries, consumers are reluctant to spend, and so the global economy retracts. Even the rapidly developing emerging economies are adversely affected by the reduced demand from developed economies.

Add to this the political uncertainty of leadership changes around the world, such as in China, and increasing tensions with Iran, and you have a cauldron of political, economic, and financial risks.

In 2011 it also became apparent to risk analysts that there are natural disasters that can cripple business activities in far-flung countries from where the disaster occurs, and these cannot be anticipated, although back-up plans can be put in place. This realization came after the Japanese 9.0 magnitude earthquake killing 20,000 people. The resulting tsunami and problems in the nuclear reactors was devastating to Japan's people and economy. Supply chains around the world were disrupted from the shutdown of manufacturing plants and infrastructure in Japan; this disaster and the devastating flooding in Thailand in November 2011 highlighted the need for resilient business models in response to crises of unforeseen magnitude. "The question now is, has the quest for lowest-cost production and hyper-lean supply chains overridden and exposed vulnerability to significant business risk?"³

Clearly, globalization has compounded the types and level of business risks to which firms are exposed and the speed with which they might be impacted. Managers around the world must be attuned to what types of situations make their firms vulnerable and plan accordingly. Carlos Ghosn, the CEO of Nissan, told an audience in New York:

There's going to be another crisis. We don't know what kind of crisis, where it is going to hit us, and when it is going to hit us, but every time there is a crisis we are going to learn from it.

FORTUNE,
December 26, 2011.⁴

Half of the global growth now comes from emerging markets.

ROBERT ZOELICK, PRESIDENT, WORLD BANK,
SEPTEMBER 19, 2011.⁵

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 a globalized economy, developments such as those described in the opening profile 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, and technology. 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 faced by Western drug manufacturers 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 all-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.

Globalization

The World Trade Organization (WTO) warned in September 2011 that the expansion in global trade had slowed sharply, and that “the slowdown in trade was concentrated in the advanced economies, particularly Europe, suggesting that it was related to the sovereign debt crisis in the eurozone.”⁶ Clearly, the financial linkages around the world are just one phenomenon of globalization. Business competitiveness has now evolved to a level of sophistication commonly called **globalization**—global competition characterized by networks of international linkages that bind countries, institutions, and people in an interdependent global economy. 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 is being 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 refers to as “leveling the playing field” among countries—or, the “flattening of the world.”⁷

Emerging economies now produce as much trade, capital, and knowledge flow as do developed economies.⁸ Sirkin et al. use the term “globality,” stating that business these days is all about “competing with everyone from everywhere for everything.”⁹ On a more strategic level, Ghemawat argues, rather, 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.”¹⁰ 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.¹¹ He observes that, as emerging market countries have gained in wealth and power and increasingly call their own shots, there is a reverse trend of globalization taking place—evolving fragmentation—which he says is, ironically, a ripple effect of globalization.¹² Examples of such localization trends are the activities of firms such as Alibaba, Infosys, Carrefour, General Motors, and Pizza Hut that now focus on tailoring their products to emerging-market consumers.

GLOBAL TRENDS

The rapid development of globalization 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:¹³

- 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 in order 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.¹⁴

Globality and Emerging Markets

*Nestlé said on July 11, 2011 that it had agreed to pay \$1.7 billion for a 60 percent stake in a big Chinese confectioner, in one of the biggest deals ever by a foreign company in China.*¹⁵

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 and Russia (often called the BRICs, which together accounted for over 18 percent of global gross domestic product (GDP) as of 2011¹⁶). There is no doubt that the global economic turmoil has curtailed investment, and company executives remained wary of investment in 2012. However, global trade is increasingly including those developing nations judged to have significant growth potential, with investments from developed economies to emerging economies of over \$1,000 billion a year as of 2011.¹⁷ Exhibit 1-1 shows the 2012 results from research by the A. T. Kearney Company of the Foreign Direct Investment (FDI) intentions and preferences of the leaders of top companies in 17 industry sectors spanning six continents; the companies participating in the survey account for over \$2 trillion in global revenue. The exhibit shows the top 25 countries in which those executives have confidence for their investment opportunities. Their results show that China, India, and Brazil continue to rank at the top of the FDI Confidence Index, along with the United States (although the U.S. rank dropped two places since 2010, burdened by debt and financial instability).¹⁸ In fact over half of global FDI inflows were from emerging markets for the first time in history, and now comprise more than half of the Index’s top 25 countries. South Africa, which was unranked in 2010, rebounded to 11th place. Russia fell from 9th place in 2007 to 12th in 2012. Overall, it is clear that the phenomenon of such rapidly developing economies, says Fareed Zakaria, 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.*¹⁹

“The rest,” he says, include 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.

Evidence of the growing number of companies from emerging markets can be seen in the Fortune 500 rankings of the world’s biggest firms. The Global 500 is increasingly global. While the U.S. still dominates the list, with 133 companies, that number is down from 185 a decade ago. China continues to move up the list, with 61 companies—versus just 12 in 2001—while many companies from India, Russia, Brazil, and other growth economies are moving up in the rankings. Examples of “emerging giants” are, from China, Huawei Technologies, Lenovo Group, and Baosteel; those from India include Infosys Technologies, Tata Group, and Bharti Airtel;

MAP 1.1 Emerging Economies

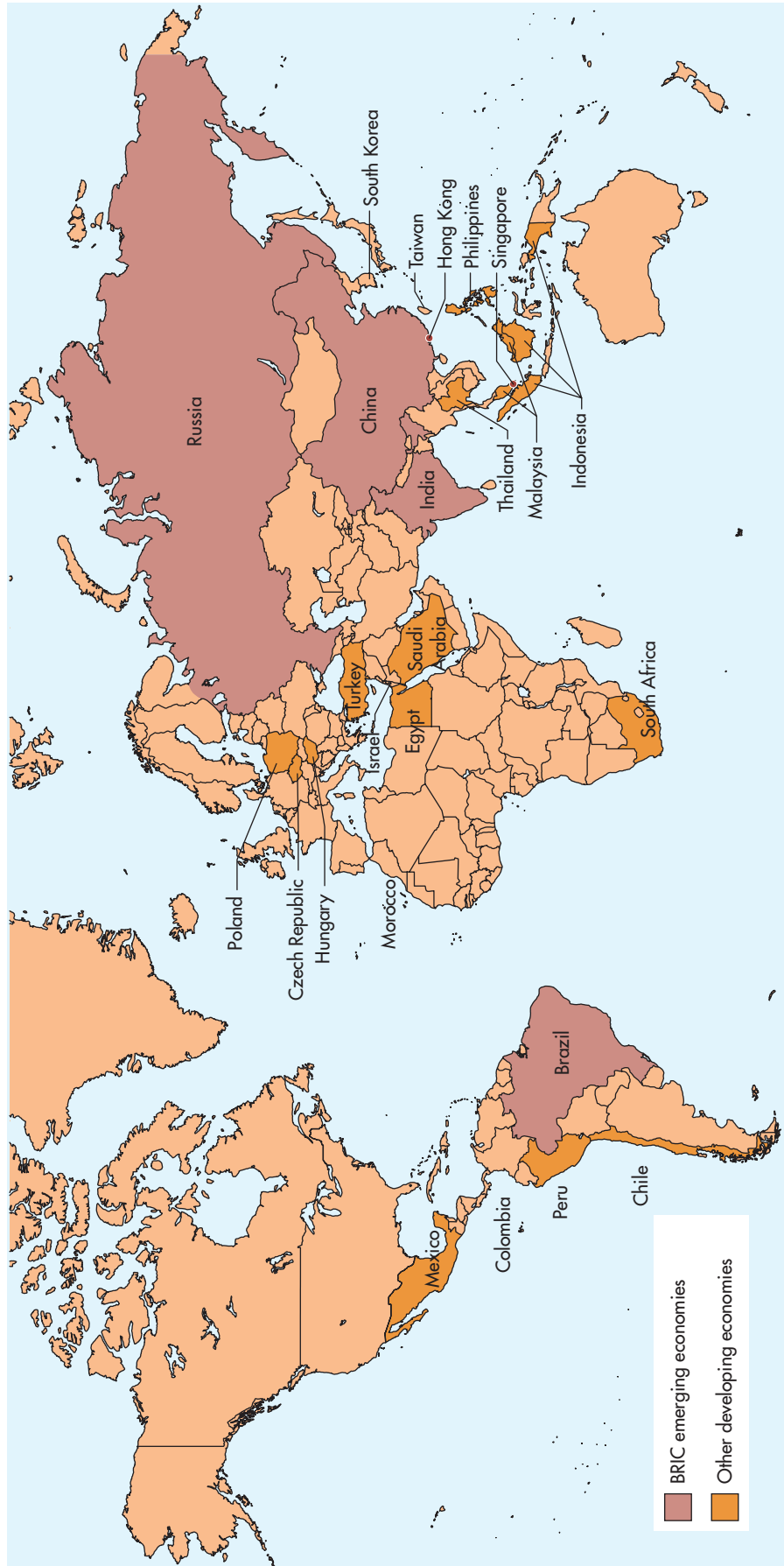
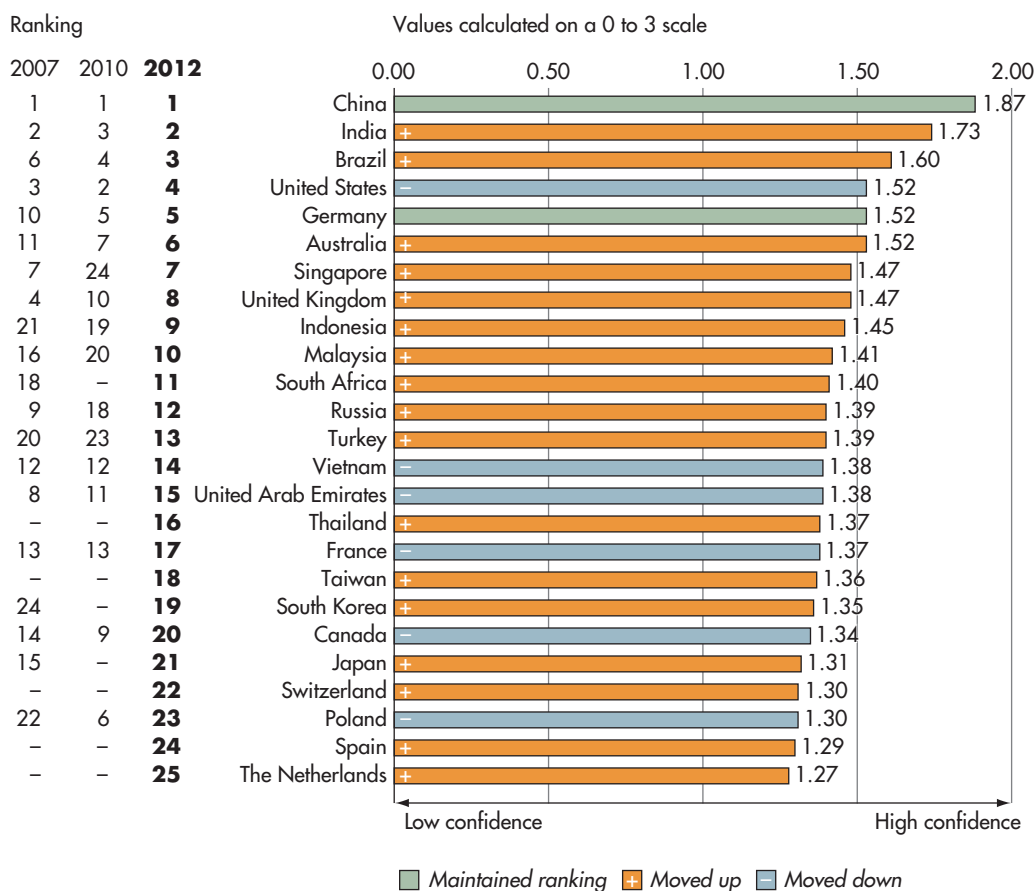


EXHIBIT 1-1 2012 Foreign Direct Investment Confidence Index Top 25 Targets for FDI The main types of FDI are acquisition of a subsidiary or production facility, joint ventures, licensing, and investing in new facilities or expansion of existing facilities.



Source: 2012 FDI Confidence Index, Copyright A. T. Kearney, 2012. All rights reserved. Reprinted with permission.

from Brazil they include 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.*²⁰

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 the Budweiser brand, America’s favorite beer, was bought by InBev, a Belgian-Brazilian conglomerate, and also in 2008, “several of America’s leading financial institutions avoided bankruptcy only by going cap in hand to the sovereign-wealth funds (state-owned investment funds) of various Arab kingdoms and the Chinese government.”²¹ Clearly, companies in emerging markets are providing many tangible business opportunities for investment and alliances around the world, as well as establishing themselves as competitors to reckon with.

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. Globalization has been propelled by capitalism and open markets, most notably by Western companies. Now

“economic power is shifting fast to the emerging nations of the south. China and India are replacing the U.S. as the engines of world economic growth.”²²

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 to takeovers such as the Indian company Mittal Steel's bid for Europe's largest steel company, Arcelor. In particular, as the demand on energy resources burgeons with heightened industrial activity in China, 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.²³ Recently, globalization has also become increasingly unpopular with many in the United States as growth in emerging markets raises prices for energy and commodities; as their jobs are being lost overseas, driving down wages; and as the weak dollar makes companies in the United States vulnerable to foreign buyers.²⁴

While 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 their 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.²⁵

In addition, while 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 Trade²⁶

Two major groups of institutions (supranational and national) play a differing role 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. While 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 required by the U.S. Food and Drug Administration (FDA) and the anti-dumping rules enforced by the U.S. Department of Commerce's International Trade Administration (ITA) 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 27 EU members as a whole rather than 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.²⁷

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. 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.*²⁸

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.²⁹ This didn't happen overnight. Toyota has been investing in North America for 20 years in plants, suppliers, and dealerships, as well as design, testing, and research centers. Toyota became the largest auto manufacturer in the world in sales in 2009. In fact, on June 1, 2009, General Motors filed for Chapter 11 bankruptcy, pushed into a temporary partial nationalization by the U.S. government in order to save the company in a drastically downsized form.³⁰

Clearly, 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 of the firm's growth will come from overseas.³¹ Avon, for example, estimates it employs 5 million sales representatives globally; Nestlé has 50 percent of its sales outside of its home market; Coca-Cola has 80 percent; and Procter & Gamble has 65 percent. The Tata Group, a conglomerate originating in India, has operations in 85 countries and has made a number of acquisitions of large firms around the world.

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. In fact, as noted in discussions in the 2012 World Economic Forum: “it is that the world's largest companies are moving beyond governments and countries that they perceive to be inept and anemic. They are operating in a space that is increasingly supranational—disconnected from local concerns and the problems of their home markets.”³²

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 to expand their operations to other countries will have to develop a cadre of top management with experience operating abroad and an understanding of what it takes to do business in other countries and to work with people of other cultures. Many large firms around the world are getting to the stage of evolution known as the stateless multinational, where work is sourced wherever it is most efficient; the result of this stage of development is that

*for business leaders, building a firm that is seamlessly integrated across time zones and cultures presents daunting obstacles.*³³

Already it is clear that top managers are locating anywhere in the world where the firm has operations or is looking for opportunities, rather than trying to run the show from a headquarters building in the home country. Jeff Immelt, for example, who is Chairman and CEO of General Electric (GE), calls himself a “globalist.” GE is clearly a global company—half of GE's 300,000 employees are overseas, and 60 percent of its revenues come from overseas. “Petropolis,” for example, GE's company town plant in Brazil, has 8,000 employees and is growing at a rate of 35 percent a year, compared to one percent in the United States. When Leslie Stahl, in an interview on October 9, 2011 for the CBS program *60 Minutes*, pressured Mr. Immelt about GE's many jobs overseas that could be in the United States, he responded that those plants order components from GE's U.S. plants, and he defended the company's global strategy as being responsible to the shareholders and responsible to grow the company's revenues.