

International Management

Culture, Strategy, and Behavior



TENTH EDITION



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Fred Luthans | Jonathan P. Doh

International Management

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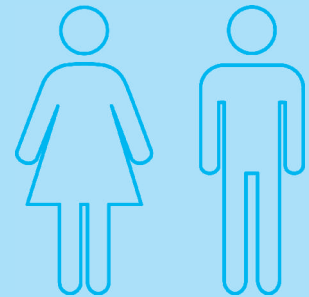
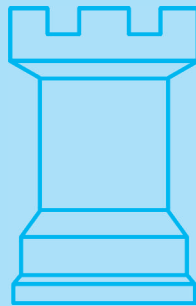
Tenth Edition

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INTERNATIONAL MANAGEMENT: CULTURE, STRATEGY, AND BEHAVIOR, TENTH EDITION

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Dedicated in Memory of

Rafael Lucea,

A Passionate Advocate for Global Business Education and Experience.

Preface

Changes in the global business environment continue unabated and at an accelerated pace. Many surprising and difficult-to-predict developments have rocked global peace and economic security. Terrorism, mass migration, the United Kingdom's exit from the European Union, and the rise of anti-immigration political movements in Europe, the United States, and elsewhere have called into question assumptions about the direction of the global political economy. In addition, rapid advances in social media have not only accelerated globalization but also provided a means for those who seek political and economic changes to organize and influence their leaders for more responsible governance, or, in some cases, advance a more narrow ideological agenda (see opening articles in Chapters 1 and 2). In addition, concerns about climate change and other environmental issues have prompted companies, in conjunction with governments and nongovernmental organizations, to consider alternate approaches to business and governance (see Chapter 3 opening article).

Some of these developments have challenged longstanding beliefs about the power and benefits of globalization and economic integration, but they also underscore the interconnected nature of global economies. Although many countries and regions around the world are closely linked, important differences in institutional and cultural environments persist, and some of these differences have become even more pronounced in recent years. The challenges for international management reflect this dynamism and the increasing unpredictability of global economic and political events. Continued growth of the emerging markets is reshaping the global balance of economic power, even though differences exist between and among regions and countries. Although many emerging markets continued to experience growth during a period when developed countries' economies stagnated or declined, others, like Russia and Brazil, have faced major setbacks. Further, some developed economies, such as Greece, Italy, Spain, and Portugal, continue to face formidable challenges that stem from the European debt crisis that began in 2009. Low or negative interest rates reflect a "new normal" of slower-than-average growth among many global economies.

The global political and security environment remains unpredictable and volatile, with ongoing conflicts in the Middle East and Africa and continuing tensions in Iran, North Korea, Iraq, and Afghanistan and elsewhere. Another crisis stemming from conflict in Syria and elsewhere has resulted in mass migration—and broad dislocations—across North Africa and Southern, even Northern, Europe (see Chapters 1 and 2 for further discussion). On the economic front, the global trade and integration agenda seems stalled, largely due to domestic political pressures in Europe and North America. Although the Trans-Pacific Partnership (TPP), a proposed free-trade agreement including 12 countries in the Americas and Asia, was concluded, its ratification in the United States is uncertain. Similarly, the fate of the Transatlantic Trade and Investment Partnership, which was still under negotiation at the time of this writing, is also unclear.

As noted above, the advent of social networking has transformed the way citizens interact; how businesses market, promote, and distribute their products globally; and how civil society expresses its concerns that governments provide greater freedoms and accountability. Concurrently, companies, individuals, and even students can now engage in broad "mass" collaboration through digital, online technology for the development of new and innovative systems, products, and ideas. Both social networking and mass collaboration bring new power and influence to individuals across borders and transform

the nature of their relationships with global organizations. Although globalization and technology continue to link nations, businesses, and individuals, these linkages also highlight the importance of understanding different cultures, national systems, and corporate management practices around the world. The world is now interconnected geographically, but also electronically and psychologically; as such, nearly all businesses have been touched in some way by globalization. Yet, as cultural, political, and economic differences persist, astute international managers must be in a position to adapt and adjust to the vagaries of different contexts and environments.

In this new tenth edition of *International Management*, we have retained the strong and effective foundations gained from research and practice over the past decades while incorporating the important latest research and contemporary insights that have changed the context and environment for international management. Several trends have emerged that pose both challenges and opportunities for international managers.

First, more nationalistically oriented governments and/or political movements have emerged in many regions of the world, challenging previous assumptions about the benefits and inevitability of globalization and integration. Second, while emerging markets continue to rise in importance, some—such as China and India—have fared much better economically than others—such as Brazil and Russia. Third, aging populations and concerns about migration have challenged many developed country governments as they wrestle with these dual pressures. Fourth, social media and other forms of electronic connectivity continue to facilitate international business of all sorts; however, these connections go only so far, with many barriers and limitations imposed by governments.

Although we have extensive new, evidence-based material in this edition, we continue to strive to make the book even more user-friendly and applicable to practice. We continue to take a balanced approach in the tenth edition of *International Management: Culture, Strategy, and Behavior*. Whereas other texts stress culture, strategy, or behavior, our emphasis on all three critical dimensions—and the interactions among them—has been a primary reason why the previous editions have been the market-leading international management text. Specifically, this edition has the following chapter distribution: environment (three chapters), culture (four chapters), strategy (four chapters), and organizational behavior/human resource management (three chapters). Because the context of international management changes rapidly, all the chapters have been updated and improved. New real-world examples and research results are integrated throughout the book, accentuating the experiential relevance of the straightforward content. As always, we emphasize a balance of research and application.

For the new tenth edition we have incorporated important new content in the areas of the emergence and role of social media as a means of transacting business and mobilizing social movements, the global pressures around migration, the role of the “sharing” economy as represented by companies such as Uber, and other important global themes. We have incorporated the latest research and practical insights on pressure for MNCs to adopt more sustainable practices, and the strategies many companies are using to differentiate their products through such “green” management practices. We have updated discussion of a range of contemporary topics, including continued exploration of the role of the comprehensive GLOBE study on cross-cultural leadership.

A continuing and relevant end-of-chapter feature in this edition is the “Internet Exercise.” The purpose of each exercise is to encourage students to use the Internet to find information from the websites of prominent MNCs to answer relevant questions about the chapter topic. An end-of-book feature is a series of Skill-Building and Experiential Exercises for aspiring international managers. These in-class exercises represent the various parts of the text (culture, strategy, and behavior) and provide hands-on experience.

We have extended from the ninth edition of *International Management* the chapter-opening discussions called “The World of International Management” (WIM), based on very recent, relevant news stories to grab readers’ interest and attention. Many of these opening articles are new to this edition and all have been updated. These timely opening discussions transition the reader into the chapter topic. At the end of each chapter, there is a pedagogical feature that revisits the chapter’s subject matter: “The World of International Management—Revisited.” Here we pose several discussion questions based on the topic of the opening feature in light of the student’s entire reading of the chapter. Answering these questions requires readers to reconsider and to draw from the chapter material. Suggested answers to these “WIM—Revisited” discussion questions appear in the completely updated Instructor’s Manual, where we also provide some multiple-choice and true-false questions that draw directly from the chapters’ World of International Management topic matter for instructors who want to include this material in their tests.

The use and application of cases are further enhanced in this edition. All cases have been updated and several new ones have been added. The short within-chapter country case illustrations—“In the International Spotlight”—can be read and discussed in class. These have all been revised and three have been added—Cuba, Greece, and Nigeria. In addition, we have added an additional exercise, “You Be the International Management Consultant,” that presents a challenge or dilemma facing a company in the subject country of the “Spotlight.” Students are invited to respond to a question related to this challenge. The revised or newly added “Integrative Cases” positioned at the end of each main part of the text were created exclusively for this edition and provide opportunities for reading and analysis outside of class. Review questions provided for each case are intended to facilitate lively and productive written analysis or in-class discussion. Our “Brief Integrative Cases” typically explore a specific situation or challenge facing an individual or team. Our longer and more detailed “In-Depth Integrative Cases” provide a broader discussion of the challenges facing a company. These two formats allow maximum flexibility so that instructors can use the cases in a tailored and customized fashion. Accompanying many of the in-depth cases are short exercises that can be used in class to reinforce both the substantive topic and students’ skills in negotiation, presentation, and analysis. The cases have been extensively updated and several are new to this edition. Cases concerning the controversies over drug pricing, TOMS shoes, Russell Athletics/Fruit of the Loom, Euro Disneyland and Disney Asia, Google in China, IKEA, HSBC, Nike, Walmart, Tata, Danone, Chiquita, Coca-Cola, and others are unique to this book and specific to this edition. Of course, instructors also have access to Create (www.mcgraw-hill-create.com), McGraw-Hill’s extensive content database, which includes thousands of cases from major sources such as Harvard Business School, Ivey, Darden, and NACRA case databases.

Along with the new or updated “International Management in Action” boxed application examples within each chapter and other pedagogical features at the end of each chapter (i.e., “Key Terms,” “Review and Discussion Questions,” “The World of International Management—Revisited,” and “Internet Exercise”), the end-of-part brief and in-depth cases and the end-of-book skill-building exercises and simulations in the Connect resources complete the package.

International Management is generally recognized to be the first “mainstream” text of its kind. Strategy casebooks and specialized books in organizational behavior, human resources, and, of course, international business, finance, marketing, and economics preceded it, but there were no international management texts before this one, and it remains the market leader. We have had sustainability because of the effort and care put into the revisions. We hope you agree that this tenth edition continues the tradition and remains the “world-class” text for the study of international management.

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This seamless integration of reading, practice, and assessment ensures that the focus is on the most important content for that individual.

Instructor Library The Connect Management Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture.

To help instructors teach international management, this text is accompanied by a revised and expanded Instructor's Resource Manual, Test Bank, and PowerPoint slides, all of which are in the Connect Library.

Acknowledgments

We would like to acknowledge those who have helped to make this book a reality. We will never forget the legacy of international management education in general and for this text in particular provided by our departed colleague Richard M. Hodgetts. Special thanks also go to our growing number of colleagues throughout the world who have given us many ideas and inspired us to think internationally. Closer to home, Jonathan Doh would like to thank the Villanova School of Business and its leadership, especially Provost Pat Maggitti, Interim Dean Daniel Wright, Dean Joyce Russell, Interim Vice Dean Wen Mao, and Herb Rammrath, who generously endowed the Chair in International Business Jonathan now holds. Also, for this new tenth edition we would like to thank Ben Littell, who did comprehensive research, graphical design, and writing to update chapter material and cases. Specifically, Ben researched and drafted chapter opening World of International Management features, developed a number of original graphics, and provided extensive research assistance for other revisions to the book. Allison Meade researched and drafted the Chapter 4 World of International Management feature on "Culture Clashes in Cross-Border Mergers and Acquisitions." Fred Luthans would like to give special recognition to two international management scholars: Henry H. Albers, former Chair of the Management Department at the University of Nebraska and former Dean at the University of Petroleum and Minerals, Saudi Arabia, to whom previous editions of this book were dedicated; and Sang M. Lee, former Chair of the Management Department at Nebraska, founding and current president of the Pan Pacific Business Association, and close colleague on many ventures around the world over the past 30 years.

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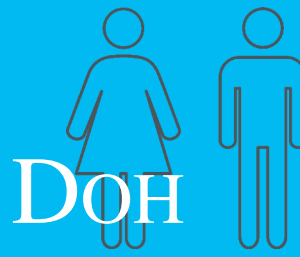
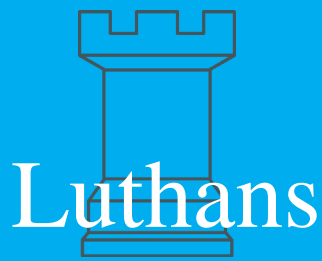
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Fred Luthans and Jonathan P. Doh



The tenth

edition of *International Management: Culture, Strategy, and Behavior*

is still setting the standard. Authors Jonathan Doh and Fred Luthans have taken care to retain the effective foundation gained from research and practice over the past decades. At the same time, they have fully incorporated important new and emerging developments that have changed what international managers are currently facing and likely to face in the coming years.

New and Enhanced Themes

- Thoroughly revised and updated chapters to reflect the most critical issues for international managers.
- Greater attention to demographic trends and human mobility, underscoring the importance of aging work forces, migration, culture, and global talent management.
- Focus on global sustainability and sustainable management practices and their impact on international management.
- New or revised opening World of International Management (WIM) features written by the authors on current international management challenges; these mini-cases were prepared expressly for this edition and are not available elsewhere.
- Discussions of the rise of global terrorism, the migrant crisis, the growing role of social media in international transactions, and many other contemporary topics presented in the opening chapter and throughout the book.
- New and updated discussions of major issues in global ethics, sustainability, and insights from project GLOBE and other cutting-edge research.
- Greater emphasis on major emerging regions, economic challenges in major countries such as Brazil and Russia, and specific case illustrations on how companies are managing these challenges.

Thoroughly Revised and Updated Chapter Content

- New or revised opening WIM discussions on topics including the global influences of social media using the case of Snapchat; the role of social networking in political change in the Middle East; sustainability as a global competitive advantage using examples of Patagonia, Tesla, and Nestlé; and cultural challenges in global mergers and acquisitions. Others address the competitive dynamics between Apple and Xiaomi and Amazon and Alibaba, the emergence of Haier as the largest global appliance company, Netflix's challenges in China and Russia, and many others. These features were written expressly for this edition and are not available elsewhere.
- Updated and strengthened emphasis on ethics, social responsibility, and sustainability.
- Extensive coverage of Project GLOBE, its relationship to other cultural frameworks, and its application to international management practice (Chapters 4, 13).
- Revised or new "In the International Spotlight" inserts that profile the key economic and political issues relevant to managers in specific countries.
- Greater coverage of the challenges and opportunities for international strategy targeted to the developing "base of the pyramid" economies (Chapter 8 and Tata cases).

CONTINUES TO SET THE STANDARD. . .



Thoroughly Updated and/or New Cases, Inserts, and Exercises

- Completely new “In the International Spotlight” country profiles at the end of every chapter including the addition of profiles on Cuba, Greece, and Nigeria.
- “You Be the International Management Consultant” exercises presenting an actual company’s challenge in that country and inviting students to recommend a course of action.
- New “International Management in Action” features, including discussions on timely topics such as the rise of Bitcoin, the Volkswagen emissions scandal, and the political risks facing Uber, to name a few.
- Thoroughly updated cases (not available elsewhere): TOMS shoes, Russell Athletics/Fruit of the Loom, Euro Disneyland and Disney Asia, Google in China, IKEA, HSBC, Nike, Walmart, Tata, Danone, Chiquita, Coca-Cola, and others are unique to this book and specific to this edition.
- Brand new end-of-part cases developed exclusively for this edition (not available elsewhere): *TOMS Puts Its Right Foot Forward*; *The Ethics of Global Drug Pricing*.
- Brand new “World of International Management” chapter opening discussions, including topics such as Netflix’s expansion to emerging markets, the merger of ABInBev and SABMiller, the battle brewing between Apple’s iPhone and Chinese cell phone startups, the impact of Russian sanctions on international businesses, and the growth of Chinese brand Haier, to name a few.
- New and revised graphics throughout.
- Timely updates throughout, based on the latest research, including an extended discussion of the GLOBE project, the continued impact of global terrorism on international business, and the push towards a sustainable future, to name a few.

Totally Revised Instructor and Student Support

The following instructor and student support materials can be found in Connect® at connect.mheducation.com for the Tenth Edition.

- The Instructor’s Manual offers a summary of Learning Objectives and a teaching outline with lecture notes and teaching tips, as well as suggested answers to questions found throughout and at the conclusion of each chapter. Suggested answers are also provided for all the cases found in the book.
- The test bank is offered in both Word and EZ Test formats and offers over 1,000 test items consisting of true/false, multiple choice, and essay. Answers are provided for all test bank questions.



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- PowerPoint Presentations consisting of 30 slides per chapter give instructors talking points, feature exhibits from the text, and are summarized with a review and discussion slide.
- **LearnSmart®**: The Tenth Edition of *International Management* is available with LearnSmart, the most widely used adaptive learning resource, which is proven to improve grades. To improve your understanding of this subject and improve your grades, go to McGraw-Hill Connect® at connect.mheducation.com and find out more about LearnSmart. By helping students focus on the most important information they need to learn, LearnSmart personalizes the learning experience so they can study as efficiently as possible.
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Assurance of Learning Ready

Many educational institutions today focus on the notion of *assurance of learning*, an important element of some accreditation standards. *International Management* is designed specifically to support instructors' assurance of learning initiatives with a simple yet powerful solution. Each test bank question for *International Management* maps to a specific chapter learning objective listed in the text. Instructors can use our test bank software, EZ Test and EZ Test Online, to easily query for learning objectives that directly relate to the learning outcomes for their course. Instructors can then use the reporting features of EZ Test to aggregate student results in similar fashion, making the collection and presentation of assurance of learning data simple and easy.

AACSB Tagging

McGraw-Hill Education is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, *International Management* recognizes the curriculum guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the text and the test bank to the six general knowledge and skill guidelines in the AACSB standards. The statements contained in *International Management* are provided only as a guide for the users of this textbook. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While the *International Management* teaching package makes no claim of any specific AACSB qualification or evaluation, we have within *International Management* labeled selected questions according to the six general knowledge and skills areas.

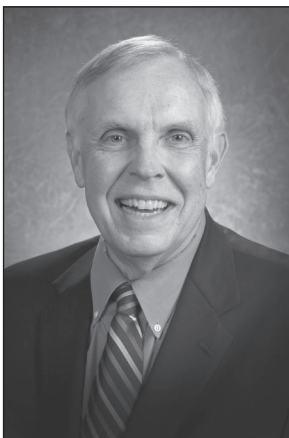


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JONATHAN P. DOH is the Herbert G. Ramrath Chair in International Business, founding Director of the Center for Global Leadership, and Professor of Management at the Villanova School of Business, ranked in 2016 as the #1 undergraduate program in the United States by *Bloomberg Businessweek*. He is also an occasional executive educator for the Wharton School of Business. Jonathan teaches, does research, and serves as an executive instructor and consultant in the areas of international strategy and corporate responsibility. Previously, he was on the faculty of American and Georgetown Universities and a trade official with the U.S. government. Jonathan is author or co-author of more than 70 refereed articles published in leading international business and management journals, more than 30 chapters in scholarly edited volumes, and more than 90 conference papers. Recent articles have appeared in journals such as *Academy of Management Review*, *California Management Review*, *Journal of International Business Studies*, *Journal of Management*, *Journal of Management Studies*, *Journal of World Business*, *Organization Science*, *Sloan Management Review*, and *Strategic Management Journal*. He is co-editor and contributing author of *Globalization and NGOs* (Praeger, 2003) and *Handbook on Responsible Leadership and Governance in Global Business* (Elgar, 2005) and co-author of the previous edition of *International Management: Culture, Strategy, and Behavior* (9th ed., McGraw-Hill/Irwin, 2015), the best-selling international management text. His current research focus is on strategy for and in emerging markets, global corporate responsibility, and offshore outsourcing of services. His most recent scholarly books are *Multinationals and Development* (with Alan Rugman, Yale University Press, 2008), *NGOs and Corporations: Conflict and Collaboration* (with Michael Yaziji, Cambridge University Press, 2009) and *Aligning for Advantage: Competitive Strategy for the Social and Political Arenas* (with Tom Lawton and Tazeeb Rajwani, Oxford University Press, 2014). He has been an associate, consulting, or senior editor for numerous journals, and is currently the editor-in-chief of *Journal of World Business*. Jonathan has also developed more than a dozen original cases and simulations published in books, journals, and case databases and used at many leading global universities. He has been a consultant or executive instructor for ABB, Anglo American, Bodycote, Bosch, China Minsheng Bank, Hana Financial, HSBC, Ingersoll Rand, Medtronic, Shanghai Municipal Government, Siam Cement, the World Economic Forum, among others. He is an external adviser to the Global Energy Resource Group of Deloitte Touche. Jonathan is part of the Executive Committee of the Academy of Management Organizations and Natural Environment Division, a role that culminated in service as chair of the division in 2016. He was ranked among the top 15 most prolific international business scholars in the world for the period 2001–2009 (Lahiri and Kumar, 2012) and in 2015 was elected a fellow of the Academy of International Business. He is a frequent keynote speaker to academic and professional groups in Europe, Asia, and Latin America. He holds a PhD in strategic and international management from George Washington University.



Courtesy of University of Nebraska-Lincoln College of Business Administration

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PART ONE

ENVIRONMENTAL
FOUNDATION



Chapter 1

GLOBALIZATION AND INTERNATIONAL LINKAGES

OBJECTIVES OF THE CHAPTER

Globalization is one of the most profound forces in our contemporary economic environment, although support for free trade and open borders is not universal. The practical impact of globalization can be felt on all aspects of society, and effective management of organizations in an increasingly complex global environment is crucial for success. In nearly every country, increasing numbers of large, medium, and even small corporations are engaging in international activities, and a growing percentage of company revenue is derived from overseas markets. Yet, continued economic and political uncertainties in many world regions, the rise of more nationalistic political movements, and continued concerns about the impact of immigration have caused some to question the current system for regulating and overseeing international trade, investments, migration, and financial flows. Nonetheless, international management—the process of applying management concepts and techniques in a multinational environment—continues to retain importance.

Although globalization and international linkages have been part of history for centuries (see the International Management in Action box “Tracing the Roots of Modern Globalization” later in the chapter), the principal focus of this opening chapter is to examine the process of globalization in the contemporary world. The rapid integration of countries, advances in information technology, and the explosion in electronic communication have created a new, more integrated world and true global competition. Yet, the complexities of doing business in distinct markets persist. Since the environment of international management is all-encompassing, this chapter is mostly concerned with the economic dimensions, while the following two chapters are focused on the political, legal, and technological dimensions and ethical and social dimensions, respectively. The specific objectives of this chapter are

1. **ASSESS** the implications of globalization for countries, industries, firms, and communities.
2. **REVIEW** the major trends in global and regional integration.
3. **EXAMINE** the changing balance of global economic power and trade and investment flows among countries.
4. **ANALYZE** the major economic systems and recent developments among countries that reflect those systems.

The World of *International Management*

An Interconnected World

Only 23 years old, Evan Spiegel faced a major business decision: whether or not to accept a US\$3 billion offer from Facebook’s Mark Zuckerberg for his social media start-up Snapchat. Taking the deal would make Spiegel one of the youngest self-made billionaires in history.

Just two years prior, Spiegel was a typical college junior at Stanford University, living in a fraternity house and working towards graduation. As a product-design student with a knack for computers, Spiegel was keenly aware that popular social media applications, such as Twitter and Facebook, record a digital “paper trail” of their users. Content uploaded to these social media sites, such as text, comments, and photos, are kept indefinitely on servers. For young college graduates trying to enter the workforce, this log of past activity has the potential to be particularly harmful; employers are often able to see this information by simply searching for a job applicant’s name online. Spiegel, however, had a clever solution: create a social networking application that would allow users to create and share content that “self-destructs” immediately after viewing. For a school project, Spiegel and co-founder Bobby Murphy programmed and developed the application, and the social media application Snapchat was born.¹

Around the same time, Facebook executives were actively looking to expand their product line. Having just survived a rocky IPO and finally emerging as a profitable enterprise, Facebook began purchasing several social media applications, including Instagram and WhatsApp in 2012 and 2014, respectively, for several billion dollars each. By mid-2013, Facebook’s Mark Zuckerberg had taken notice of the rapidly expanding Snapchat; to Zuckerberg, the appeal of Snapchat seemed to align with that of the typical Facebook user. In an attempt to grab market share from the Snapchat user base, Facebook first introduced a copycat application, called Poke. Though heavily promoted, Poke quickly flopped. Snapchat, meanwhile, continued to grow exponentially. By the beginning of 2014, Snapchat had over 30 million active users and 400 million “snaps” were being received daily.²

Sensing defeat, Zuckerberg approached Spiegel with a lucrative offer: US\$3 billion for the application. At that time,

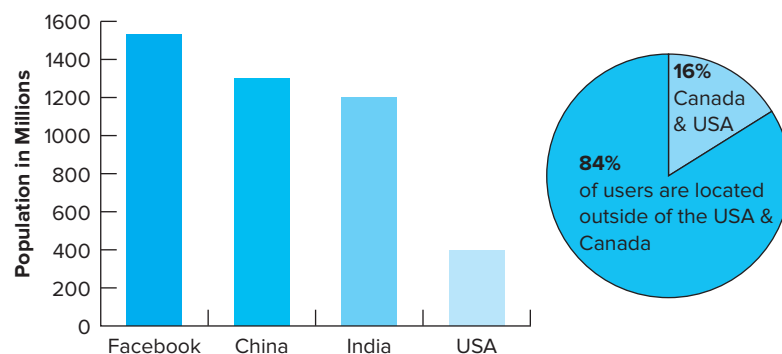
Snapchat had not made a single dollar in revenue. In a controversial and unexpected move, 23-year-old Spiegel gave Zuckerberg a firm answer: “No.” If Spiegel turned down a US\$3 billion offer for a single application, just how valuable is social media to the global community?

Social Media Has Changed How We Connect

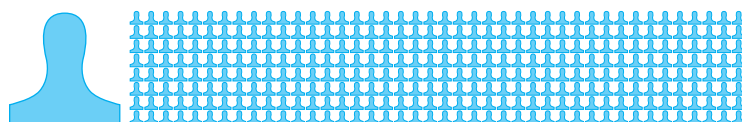
Though the market value of social media applications, such as Snapchat, are yet to be determined, one thing is certain: We currently live in a world interconnected by social media. Through online networking, the way we connect with others has drastically changed. The volume of content being created and shared is staggering, with virtually anyone on the globe only a few clicks away. In fact, the average number of links separating any two random people on Facebook is now only 4.74.³ Statistics from some of the most used social networking applications underscore how social media has connected people across the globe:

Facebook

If Facebook were a country, it would be the **largest**.



900 million users, or about **90%** of the daily users, access Facebook through their mobile devices. Globally, the average user has 338 “friends”:



Source: Original graphic by Ben Littell under supervision of Professor Jonathan Doh, based on information from Facebook.com & Smith, Aaron, “6 New Facts About Facebook,” Pew Research Center, February 3, 2014. <http://www.pewresearch.org>.

Instagram

- Over 300 million people create content on Instagram every month.
- Over 70 percent of Instagram users are from outside the United States.
- 70 million new photos are uploaded and shared every day.⁴

Snapchat

- Snapchat reached 100 million active members in less than four years.⁵
- 60 percent of 13–34 year olds in the United States are on Snapchat.
- More than 5 billion videos are viewed on Snapchat every day.
- Over 60 percent of Snapchat users create and share original content everyday.⁶

Certainly, social networks are a part of many people’s lives. Yet, has the virtual world of social media networks made a permanent impact in the world of international business?

Social Media Has Changed Global Business Strategy

General Electric (GE), a company with a long-standing legacy in multiple industries, and one of the most recognizable brands on the planet, has strategically leveraged social media to improve its long-term image. By interacting daily with customers across a variety of social networks, the 100-year-old company aims to transform the way that its brand is perceived while simultaneously building a new generation of consumers. A section of GE’s website, called the “Social Hub,” serves as a central spot for this social media activity, compiling its pictures and videos posted to Facebook, Twitter, and Google+ into one location online.

Since 2015, GE has strategically leveraged social media as an advertising tool. Geo-filters, which are graphic advertisements that Snapchat users can add to their “snaps” depending on their geographic location, have been utilized by GE on multiple occasions. Advertising through these filters provides GE with an opportunity to

increase brand awareness with a younger, more tech-savvy generation while simultaneously linking their brand to specific events and locations. GE's first Snapchat geo-filter, which was released for the summer solstice, was shared by nearly 5 million users.⁷

Through its "Ecomagination" program, GE utilizes social media to crowdsource sustainable solutions to current environmental issues. A central component of the program is the Open Innovation Challenges, in which teams work together to solve a specific problem specified by GE. Intellectual property rights are shared by GE and the participants, and winners receive funding to co-develop their ideas with GE scientists.

Social Media Has Changed How We Do Business Globally

In his book *Socialnomics: How Social Media Transforms the Way We Live and Do Business*, Erik Qualman writes, "Social media platforms like Facebook, YouTube, and Twitter are fundamentally changing the way businesses and consumers behave, connecting hundreds of millions of people to each other via instant communication." In essence, social media is reshaping how "consumers and companies communicate and interact with each other."⁸

Social media has changed how consumers search for products and services. Qualman gives the example of a woman who wants to take a vacation to South America, but she is not sure which country she wants to visit. In the past, she would have typed in "South American vacation" to Google, which would have brought her to travel websites such as TripAdvisor. After hours of research, she would have picked a destination. Then, after more research, she would pick a place to stay. With social media, this woman's vacation planning becomes streamlined. When she types "South American vacation" into a social network, she finds that five of her friends have taken a trip to South America in the last year. She notices that two of her friends highly recommended their vacations to Chile with GoAhead Tours. She clicks on a link to GoAhead Tours and books her vacation. In a social network, online word of mouth among friends carries great weight for consumers. With the data available from their friends about products and services, consumers know what they want without traditional marketing campaigns.⁹

This trend means that marketers must be responsive to social networks. For example, an organization that gives travel tours has a group on Facebook. A marketer at that organization could create a Facebook application that allows its group members to select "places I'd like to visit." Let's say that 25 percent of group members who use the application choose Victoria Falls as a place they would like to visit. The organization could develop a tour to Victoria Falls, and then could send a message to all of its Facebook group members to notify them about this new tour. In this way, a social network

serves as an inexpensive, effective means of marketing directly to a business's target audience.

Social Media Has Impacted International Diplomacy

The United Nations (U.N.) has increasingly embraced social media as a tool to increase diplomacy and understanding worldwide. The U.N. maintains official accounts on Facebook, Twitter, YouTube, Flickr, Google+, Tumblr, Instagram, and LinkedIn, and, as of 2016, boasts over 2 million followers on its primary Facebook page. As part of its "2015: Time for Global Action" campaign, the U.N. utilized various social media platforms to spread its action plan and its new sustainable development goals worldwide. The hashtag "#action15" was used to link activities across various networks, while Twitter and Facebook served as primary platforms for disseminating information to its global audience (refer to Chapter 3, Table 3-3, for a further discussion of the U.N.'s 2015 sustainable development goals).¹⁰

In another pioneering move, the U.S. government sent an unconventional delegation to Moscow that included the creator of Twitter, the chief executive of eBay, and the actor Ashton Kutcher. One of the delegation's goals was "to persuade Russia's thriving online social networks to take up social causes like fighting corruption or human trafficking," according to Jared Cohen, who served on former-Secretary of State Hillary Clinton's policy planning staff. In Russia, the average adult spends 10.4 hours a month on social networking sites, based on comScore market research. This act of diplomacy by Washington underscores how important social networks have become in our world today, a world in which Twitter has helped mobilize people to fight for freedom from corruption.

Social media networks have accelerated technological integration among the nations of the world. People across the globe are now linked more closely than ever before. This social phenomenon has implications for businesses as corporations can now leverage networks such as Facebook to achieve greater success. Understanding the global impact of social media is key to understanding our global society today.

Social networks have rapidly diffused from the United States and Europe to every region of the world, underscoring the inexorable nature of globalization. As individuals who share interests and preferences link up, they are afforded opportunities to connect in ways that were unimaginable just a decade ago. Facebook, Twitter, LinkedIn, and others are all providing communication platforms for individuals and groups in disparate—and even isolated—locations around the world. Such networks also offer myriad business opportunities for companies large and small to identify and target discrete groups of consumers or other business partners. These networks are revolutionizing the nature of management—including international management—by allowing producers and consumers to interact directly

without the usual intermediaries. Networks and the individuals who make them up are bringing populations of the world closer together and further accelerating the already rapid pace of globalization and integration.

As evidenced by Evan Spiegel's rejection of a US\$3 billion offer for his social networking application Snapchat, social media is, in many ways, invaluable to the global community. The pace of interconnectivity across the globe continues to increase with the new communication tools that social networking provides. Social media has altered the way that we interact with each other, and businesses, like

GE, have gained real advantages by leveraging online networks. In this chapter, we examine the globalization phenomenon, the growing integration among countries and regions, the changing balance of global economic power, and examples of different economic systems. As you read this chapter, keep in mind that although there are periodic setbacks, globalization continues to move at a rapid pace and that all nations, including the United States, as well as individual companies and their managers, are going to have to keep a close watch on the current environment if they hope to be competitive in the years ahead.

■ Introduction

Management is the process of completing activities with and through other people. **International management** is the process of applying management concepts and techniques in a multinational environment and adapting management practices to different economic, political, and cultural contexts. Many managers practice some level of international management in today's increasingly diverse organizations. International management is distinct from other forms of management in that knowledge and insights about global issues and specific cultures are a requisite for success. Today more firms than ever are earning some of their revenue from international operations, even nascent organizations, as illustrated in The World of International Management chapter opening.

Many of these companies are multinational corporations (MNCs). An **MNC** is a firm that has operations in more than one country, international sales, and a mix of nationalities among managers and owners. In recent years such well-known American MNCs as Apple, Chevron, Johnson & Johnson, Coca-Cola, Ford Motor Company, ExxonMobil, Caterpillar, Walmart, Microsoft, and Google have all earned more annual revenue in the international arena than they have in the United States. Table 1–1 lists

management

Process of completing activities efficiently and effectively with and through other people.

international management

Process of applying management concepts and techniques in a multinational environment and adapting management practices to different economic, political, and cultural environments.

MNC

A firm having operations in more than one country, international sales, and a nationality mix of managers and owners.

Table 1–1
The World's Top Nonfinancial MNCs, Ranked by Foreign Assets, 2015
(in millions of dollars)

Rank	Company Name	Home Economy	Foreign Assets	Total Assets	Foreign Sales	Total Sales
1	Royal Dutch/Shell Plc	United Kingdom	\$288,283	\$340,157	\$169,737	\$264,960
2	Toyota Motor Corporation	Japan	273,280	422,176	165,195	236,797
3	General Electric	United States	257,742	492,692	64,146	117,385
4	Total SA	France	236,719	244,856	123,995	159,162
5	British Petroleum Company Plc	United Kingdom	216,698	261,832	145,640	222,894
6	Exxon Mobil Corporation	United States	193,493	336,758	167,304	259,488
7	Chevron Corporation	United States	191,933	266,103	48,183	129,648
8	Volkswagen Group	Germany	181,826	416,596	189,817	236,702
9	Vodafone Group Plc	United Kingdom	166,967	192,310	52,150	61,466
10	Apple Computer Inc.	United States	143,652	290,479	151,983	233,715

Source: UNCTAD, *World Investment Report 2016* (June 21, 2016), Annex Table 24, <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx>.

the world's top nonfinancial companies ranked by foreign assets through 2015. General Electric, headquartered in the United States, for example, now has more than 50% of its assets located outside of its home market.

In addition, companies from developing economies, such as India, Brazil, and China, are providing formidable competition to their North American, European, and Japanese counterparts. Names like Cemex, Embraer, Haier, Lenovo, LG Electronics, Wipro, Telefonica, Santander, Reliance, Samsung, Grupo Televisa, Airtel, Tata, and Infosys are becoming well-known global brands. Globalization and the rise of emerging markets' MNCs have brought prosperity to many previously underdeveloped parts of the world, notably the emerging markets of Asia. Since 2009, sales of automobiles in China have exceeded those in the United States. Boosted by tax breaks, vehicle sales in China reached a record 24.6 million units in 2015, according to the China Association of Automobile Manufacturers, far ahead of the 17.5 million cars and light trucks sold in the U.S.¹¹ Moreover, a number of emerging market auto companies are becoming global players through their exporting, foreign investment, and international acquisitions, including the purchase of Volvo by Chinese automaker Geely and Tata's acquisition of Jaguar-Land Rover (see the In-Depth Integrative Case at the end of Part Three).

In a striking move, Cisco Systems, one of the world's largest producers of network equipment, such as routers, announced it would establish a "Globalization Center East" in Bangalore, India. This center includes all the corporate and operational functions of U.S. headquarters, which have been mirrored in India. Under this plan, which includes an investment of over \$1.1 billion, one-fifth of Cisco's senior management will move to Bangalore.^{12,13}

In March 2014, Procter and Gamble celebrated the grand opening of their Singapore Innovation Center (SgIC), which will function as the primary research and development center for P&G's hair, skin, and home care products. According to P&G, the SgIC will contain more than 250 research laboratories and 500 researchers, focusing on more than 18 different fields of study. The Asian market, with nearly two billion customers and 25 different brands, is particularly important for P&G's future growth plans.¹⁴ Similarly, Unilever has opened R&D centers in Bangalore, India, and Shanghai, China. The Shanghai Center is one of Unilever's largest R&D buildings, covering some 30,000 square meters and housing more than 450 professionals from 22 nationalities.¹⁵ Citing the massive growth in the health care market in Asia, General Electric moved its X-ray business headquarters to China in 2011, and vice chairman John Rice relocated to Hong Kong.^{16,17}

Accenture, another American archetype, had about 336,000 employees globally in 2015, with about 237,000 of those employees located outside of the United States. Originally focused on IT services within the United States, Accenture has quickly transformed into one of the largest consulting firms worldwide. The company's operations in India now employ nearly 150,000 people, twice as many as in the United States.¹⁸ With offices in 200 cities across 55 countries, Accenture has focused on providing services for both developed and growing markets.¹⁹ In 2015, Accenture drew 47 percent of its revenue from outsourcing.²⁰

These trends reflect the reality that firms are finding they must develop international management expertise, especially expertise relevant to the increasingly important developing and emerging markets of the world. Managers from today's MNCs must learn to work effectively with those from many different countries. Moreover, more and more small and medium-sized businesses will find that they are being affected by internationalization. Many of these companies will be doing business abroad, and those that do not will find themselves doing business with MNCs operating locally. And increasingly, the MNCs are coming from the developing world as previously domestic-oriented companies from countries like China and India expand abroad through acquisitions or other means. Table 1–2 lists the world's top nonfinancial companies from developing countries ranked by foreign assets in 2014.

Table 1–2
The World's Top Nonfinancial TNCs from Developing and Transitioning Economies,
Ranked by Foreign Assets, 2014
 (in millions of dollars)

Rank	Company Name	Home Economy	Foreign Assets	Total Assets	Foreign Sales	Total Sales
1	Hutchison Whampoa Limited	Hong Kong/China	\$91,055	\$113,909	\$ 27,043	\$ 35,098
2	Hon Hai Precision Industries	Taiwan	73,010	77,803	138,023	139,018
3	China National Offshore Oil Group	China	71,090	182,282	26,084	99,557
4	Samsung Electronics Co., Ltd.	South Korea	56,164	211,205	176,534	196,263
5	Vale SA	Brazil	55,448	116,598	31,667	37,608
6	Petronas – Petroliam Nasional Bhd	Malaysia	45,572	153,770	76,726	100,602
7	China Ocean Shipping (Group) Company	China	44,805	57,875	18,075	27,483
8	America Movil SAB De CV	Mexico	41,627	86,795	41,547	63,793
9	Lukoil OAO	Russian Federation	32,907	111,800	119,932	144,167
10	Tata Motors Ltd.	India	30,214	38,235	37,201	43,044

Source: UNCTAD, *World Investment Report 2016* (June 21, 2016), Annex Table 25, <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx>.

■ Globalization and Internationalization

International business is not a new phenomenon; however, the volume of international trade has increased dramatically over the last decade. Today, every nation and an increasing number of companies buy and sell goods in the international marketplace. A number of developments around the world have helped fuel this activity.

Globalization, Antiglobalization, and Global Pressures for Change

Globalization can be defined as the process of social, political, economic, cultural, and technological integration among countries around the world. Globalization is distinct from internationalization in that internationalization is the process of a business crossing national and cultural borders, while globalization is the vision of creating one world unit, a single market entity. Evidence of globalization can be seen in increased levels of trade, capital flows, and migration. Globalization has been facilitated by technological advances in transnational communications, transport, and travel. Thomas Friedman, in his book *The World Is Flat*, identified 10 “flatteners” that have hastened the globalization trend, including the fall of the Berlin Wall, **offshoring**, and **outsourcing**, which have combined to dramatically intensify the effects of increasing global linkages.²¹ Hence, in recent years, globalization has accelerated, creating both opportunities and challenges to global business and international management.

On the positive side, global trade and investment continue to grow, bringing wealth, jobs, and technology to many regions around the world. While some emerging countries have not benefited from globalization and integration, the emergence of MNCs from developing countries reflects the increasing inclusion of all regions of the world in the benefits of globalization. Yet, as the pace of global integration quickens, so have the cries against globalization and the emergence of new concerns over mounting global pressures.²² These pressures can be seen in protests at the meetings of the World Trade

globalization

The process of social, political, economic, cultural, and technological integration among countries around the world.

offshoring

The process by which companies undertake some activities at offshore locations instead of in their countries of origin.

outsourcing

The subcontracting or contracting out of activities to endogenous organizations that had previously been performed by the firm.

Tracing the Roots of Modern Globalization

Globalization is often presented as a new phenomenon associated with the post–World War II period. In fact, globalization is not new. Rather, its roots extend back to ancient times. Globalization emerged from long-standing patterns of transcontinental trade that developed over many centuries. The act of barter is the forerunner of modern international trade. During different periods of time, nearly every civilization contributed to the expansion of trade.

Middle Eastern Intercontinental Trade

In ancient Egypt, the King’s Highway or Royal Road stretched across the Sinai into Jordan and Syria and into the Euphrates Valley. These early merchants practiced their trade following one of the earliest codes of commercial integrity: *Do not move the scales, do not change the weights, and do not diminish parts of the bushel*. Land bridges later extended to the Phoenicians, the first middlemen of global trade. Over 2,000 years ago, traders in silk and other rare valued goods moved east out of the Nile basin to Baghdad and Kashmir and linked the ancient empires of China, India, Persia, and Rome. At its height, the Silk Road extended over 4,000 miles, providing a transcontinental conduit for the dissemination of art, religion, technology, ideas, and culture. Commercial caravans crossing land routes in Arabian areas were forced to pay tribute—a forerunner of custom duties—to those who controlled such territories. In his youth, the Prophet Muhammad traveled with traders, and prior to his religious enlightenment the founder of Islam himself was a trader. Accordingly, the Qur’an instructs followers to respect private property, business agreements, and trade.

Trans-Saharan Cross-Continental Trade

Early tribes inhabiting the triad cities of Mauritania, in ancient West Africa below the Sahara, embraced caravan trade with the Berbers of North Africa. Gold from the sub-Saharan area was exchanged for something even more prized—salt, a precious substance needed for retaining body moisture, preserving meat, and flavoring food. Single caravans, stretching five miles and including nearly 2,500 camels, earned their reputation as ships of the desert as they ferried gold powder, slaves, ivory, animal hides, and ostrich feathers to the northeast and returned with salt, wool, gunpowder, porcelain pottery, silk, dates, millet, wheat, and barley from the East.

China as an Ancient Global Trading Initiator

In 1421, a fleet of over 3,750 vessels set sail from China to cultivate trade around the world for the emperor. The voyage reflected the emperor’s desire to collect tribute in exchange for trading privileges with China and China’s protection. The Chinese, like modern-day multinationals, sought to extend their economic reach while recognizing principles of economic equity and fair trade. In the course of their global trading, the Chinese

introduced uniform container measurements to enable merchants to transact business using common weight and dimension measurement systems. Like the early Egyptians and later the Romans, they used coinage as an intermediary form of value exchange or specie, thus eliminating complicated barter transactions.

European Trade Imperative

The concept of the alphabet came to the Greeks via trade with the Phoenicians. During the time of Alexander the Great, transcontinental trade was extended into Afghanistan and India. With the rise of the Roman Empire, global trade routes stretched from the Middle East through central Europe, Gaul, and across the English Channel. In 1215 King John of England signed the Magna Carta, which stressed the importance of cross-border trade. By the time of Marco Polo’s writing of *The Description of the World*, at the end of the 13th century, the Silk Road from China to the city-states of Italy was a well-traveled commercial highway. His tales, chronicled journeys with his merchant uncles, gave Europeans a taste for the exotic, further stimulating the consumer appetite that propelled trade and globalization. Around 1340, Francisco Balducci Pegolotti, a Florentine mercantile agent, authored *Practica Della Mercatura (Practice of Marketing)*, the first widely distributed reference on international business and a precursor to today’s textbooks. The search for trading routes contributed to the Age of Discovery and encouraged Christopher Columbus to sail west in 1492.

Globalization in U.S. History

The Declaration of Independence, which set out grievances against the English crown upon which a new nation was founded, cites the desire to “establish Commerce” as a chief rationale for establishing an independent state. The king of England was admonished “for cutting off our trade with all parts of the world” in one of the earliest antiprotectionist free-trade statements from the New World.

Globalization, begun as trade between and across territorial borders in ancient times, was historically and is even today the key driver of world economic development. The first paths in the creation of civilization were made in the footsteps of trade. In fact, the word meaning “footsteps” in the old Anglo-Saxon language is *trada*, from which the modern English word *trade* is derived. Contemporary globalization is a new branch of a very old tree whose roots were planted in antiquity.

Source: Thomas Cahill, *Sailing the Wine Dark Sea: Why Greeks Matter* (New York: Doubleday, 2003), pp. 10, 56–57; Charles W. L. Hill, *International Business*, 4th ed. (New York: McGraw-Hill Irwin, 2003), p. 100; Nefertiti website, http://nefertiti.iweland.com/trade/internal_trade.htm, 2003 (ancient Egypt: domestic trade); Gavin Menzies, 1421: *The Year China Discovered America* (New York: William Morrow/HarperCollins, 2003), pp. 26–27; Milton Viorst, *The Great Documents of Western Civilization* (New York: Barnes & Noble Books, 1994), p. 115 (Magna Carta) and p. 168 (Declaration of Independence).

Organization (WTO), International Monetary Fund (IMF), and other global bodies and in the growing calls by developing countries to make the global trading system more responsive to their economic and social needs. These groups are especially concerned about rising inequities between incomes, and nongovernmental organizations (NGOs) have become more active in expressing concerns about the potential shortcomings of economic globalization.²³ In addition, candidates in various election campaigns around the world often find themselves pressured to criticize globalization, including migration of people, for contributing to lost jobs and general economic insecurity even though these problems are obviously the result of a range of factors of which globalization is just one.

Who benefits from globalization? Proponents believe that everyone benefits from globalization, as evidenced in lower prices, greater availability of goods, better jobs, and access to technology. Theoretically, individuals in established markets will strive for better education and training to be prepared for future positions, while citizens in emerging markets and underdeveloped countries will reap the benefits of large amounts of capital flowing into those countries, which will stimulate growth and development. Critics disagree, noting that the high number of jobs moving abroad as a result of the offshoring of business services jobs to lower-wage countries does not inherently create greater opportunities at home and that the main winners of globalization are the company executives. Proponents claim that job losses are a natural consequence of economic and technological change and that offshoring actually improves the competitiveness of American companies and increases the size of the overall economic pie.²⁴ Critics point out that growing trade deficits and slow wage growth are damaging economies and that globalization may be moving too fast for some emerging markets, which could result in economic collapse. Moreover, critics argue that when production moves to countries to take advantage of lower labor costs or less regulated environments, it creates a “race to the bottom” in which companies and countries place downward pressure on wages and working conditions.²⁵

India is one country at the center of the globalization debate. As noted above, India has been the beneficiary of significant foreign investment, especially in services such as software and information technology (IT). Limited clean water, power, paved roadways, and modern bridges, however, are making it increasingly difficult for companies to expand. There have even been instances of substantial losses for companies using India as an offshore base, such as occurred when several automakers, including Ford, Hyundai, Renault-Nissan, and Daimler, experienced the destruction of inventory and a week-long production stoppage due to flooding in southern India.²⁶ India’s public debt has declined to about 65 percent of GDP over the last ten years, increasing macroeconomic stability and lowering its vulnerability to external risks. Expanding by over 7 percent in 2015, India has eclipsed China as the fastest-growing large economy.²⁷ It is possible that India will follow in China’s footsteps and continue rapid growth in incomes and wealth; however, it is also possible that the challenges India faces are greater than the country’s capacity to respond to them. See In the International Spotlight at the end of this chapter for additional insights on India.

This example illustrates just one of the ways in which globalization has raised particular concerns over environmental and social impacts. According to antiglobalization activists, if corporations are free to locate anywhere in the world, the world’s poorest countries will relax or eliminate environmental standards and social services in order to attract first-world investment and the jobs and wealth that come with it. Proponents of globalization contend that even within the developing world, it is protectionist policies, not trade and investment liberalization, that result in environmental and social damage. They believe globalization will force higher-polluting countries such as China and Russia into an integrated global community that takes responsible measures to protect the environment. However, given the significant changes required in many developing nations to support globalization, such as better infrastructure, greater educational opportunities, and other improvements, most supporters concede that there may be some short-term disruptions. Over the long term, globalization supporters believe industrialization will