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# International Management

Culture, Strategy, and Behavior



ELEVENTH EDITION



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Fred Luthans | Jonathan P. Doh

# International Management

Culture, Strategy, and Behavior

Eleventh Edition

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

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**Dedicated in Memory of**

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**Richard M. Hodgetts**

A Pioneer in International Management Education

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# Preface

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**C**hanges in the global business environment continue at a rapid and often unpredictable pace. The global financial crisis and economic recession of 2008–2010 have given way to destabilizing political changes in many regions of the world, especially North Africa and the Middle East (see Chapter 2 opening article). 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 (see Chapter 1 opening article). In addition, concerns about the exhaustion of finite resources and the need to pursue more sustainable growth have prompted governments, companies, and NGOs to consider alternate approaches to business and governance (see Chapter 3 opening article).

Some of these developments have challenged assumptions about globalization and economic integration, but they also underscore the inexorably interconnected nature of global economies. Although many countries and regions around the world are closely and inextricably linked, important differences in institutional and cultural environments persist, and some of these differences have become even starker 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, some developed economies bucked this trend and some developing countries did not share in what was otherwise a dynamic period for the emerging world.

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. On the economic front, although little progress was made in the efforts to conclude a global multilateral agreement under the World Trade Organization (WTO), regional and bilateral agreements have proliferated, including the Trans-Pacific Partnership (TPP), a proposed free-trade agreement that would involve more than a dozen countries in the Americas and Asia. In addition, the tragic fire, building collapse, and other industrial accidents in India, Bangladesh, and China have renewed calls for corporations to do more to protect workers and for governments to get tougher with companies in terms of oversight and accountability. (See Chapter 3 for additional discussion.)

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 connections 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 eleventh 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, emerging markets continue to rise in importance, with dynamic growth and development in many emerging regions and countries. This includes the emergence of multinationals from emerging markets that are becoming globally competitive. Second, pressure for greater social and environmental responsibility among multinational organizations has increased, especially in light of rising pollution and the exposure of poor working conditions in many factories around the world. Third, the importance of cultural differences continues to be an omnipresent reality for international managers. And social media and other forms of electronic connectivity continue to facilitate international business of all sorts.

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 eleventh 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 eleventh edition we have incorporated important new content in the areas of sustainability and sustainable management practices, the emergence and role of social media as a means of transacting business around the world, the rise of emerging market multinationals and the challenges they pose for developed country MNCs, and other important developments in the international management field. Many of these topics—such as social media—are integrated throughout the book, as they touch on—and influence—many aspects of international management. 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 tenth 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 recapitulates 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 is 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 two have been added—Turkey and Indonesia. 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 global AIDS epidemic, Dansko, Russell Athletics/Fruit of the Loom, Euro Disneyland and Disney Asia, Google in China, IKEA, HSBC, Nike, Walmart, Tata, AirAsia, Sony, 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-hillcreate.com](http://www.mcgraw-hillcreate.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 on the Online Learning Center complete the package.

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 available password protected on the Online Learning Center at [www.mhhe.com/luthans11e](http://www.mhhe.com/luthans11e).

Another important innovation is carried over and updated from the 10th edition: we have provided instructors with a guide to online publicly available videos, many available on YouTube, that link directly to chapter themes. These short clips give instructors an opportunity to use online visual media in conjunction with traditional lecture, discussion, and PowerPoint presentations. Our guide includes the name, short description, and link for the videos, which we will keep updated on the book website.

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 eleventh edition continues the tradition and remains the "world-class" text for the study of international management.

## 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, 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. Jonathan Doh would like to thank the Villanova School of Business and its leadership, especially Dean Pat Maggitti, Vice Dean Daniel Wright, and Herb Rammrath who generously endowed the Chair in International Business Jonathan now holds. Also, for this new eleventh edition we would like to thank Ben Littell, who did much of the research and drafting of the chapter opening World of International Management features and provided extensive research assistance for other revisions to the book.

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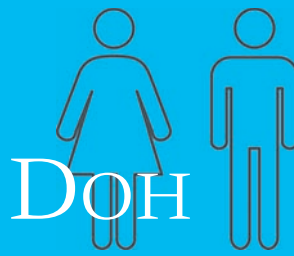
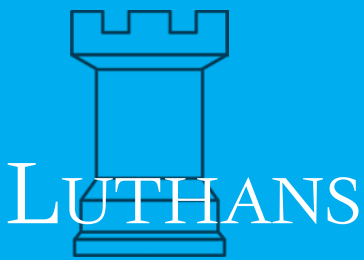
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**Fred Luthans and Jonathan P. Doh**



**The eleventh edition of *International Management: Culture, Strategy, and Behavior* is still setting the standard. Current authors Fred Luthans and Jonathan P. Doh 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 and focus on global sustainability and sustainable management practices and their impact on international management.
- New or revised opening World of International Management 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 impact of the global economic recession on international management in the opening chapter and throughout the book, and the aftermath and ongoing challenges associated with the “Arab Spring” (in Chapter 2).
- New and updated discussions of project GLOBE and its importance for international management.
- Greater emphasis on emerging markets and developing countries, and the increasing influence of emerging markets multinationals on global competition.

## Thoroughly Revised and Updated Chapter Content

- New or revised opening WIM discussions on topics including the global influences of social media, the role of social networking in the Arab Spring, sustainability as a global competitive advantage, Apple vs. Samsung, Amazon vs. Alibaba, global trends in the automotive and pharmaceutical industries, managing global teams, offshoring and culture, and many other subjects. 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 which profile the key economic and political issues relevant to managers in specific countries, including new spotlights on Turkey and Indonesia.
- 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

- New and/or updated country spotlights, “International Management in Action” features.
- Thoroughly updated cases (not available elsewhere): *Pharmaceutical Companies, Intellectual Property, and the Global AIDS Epidemic; Advertising or Free Speech? The Case of Nike and Human Rights; Beyond Tokyo: Disney’s Expansion In Asia; HSBC in China; Coca Cola in India; Walmart’s Global Strategies; Can Sony Regain its Innovative Edge? The OLED Project; Tata “Nano”: The People’s Car; The Ascendance of AirAsia: Building a Successful Budget Airline; and Chiquita’s Global Turnaround.*
- Brand new end-of-part cases developed exclusively for this edition (not available elsewhere): *Dansko puts its Right Foot Forward, Google in China: Protecting Property and Rights; IKEA’s Global Renovations.*

## Totally Revised Instructor and Student Support

The following instructor and student support materials can be found on the Online Learning Center (OLC) for the Eleventh Edition. You can access the OLC at [www.mhhe.com/luthans11e](http://www.mhhe.com/luthans11e).

- The Instructor’s Manual offers a summary of Learning Objectives and 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 TestBank 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 testbank questions.
- 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.
- Student Quizzes are provided for each chapter and give students feedback to help them understand where additional study is required.
- A guide to videos available online, with title, short description, and url.
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# About the Authors

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FRED LUTHANS is University and the George Holmes Distinguished Professor of Management at the University of Nebraska–Lincoln. He is also Chair of the Master Research Council for HUMANeX, Inc. He received his BA, MBA, and PhD from the University of Iowa, where he received the Distinguished Alumni Award in 2002. While serving as an officer in the U.S. Army from 1965–1967, he taught leadership at the U.S. Military Academy at West Point. He has been a visiting scholar at a number of colleges and universities and has lectured in most European and Pacific Rim countries. He has taught international management as a visiting faculty member at the universities of Bangkok, Hawaii, Henley in England, Norwegian Management School, Monash in Australia, Macau, Chemnitz in the former East Germany, and Tirana in Albania. A past president of the Academy of Management, in 1997 he received the Academy’s Distinguished Educator Award. In 2000 he became an inaugural member of the Academy’s Hall of Fame for being one of the “Top Five” all-time published authors in the prestigious Academy journals. Currently, he is co-editor-in-chief of the *Journal of World Business*, editor of *Organizational Dynamics*, co-editor of *Journal of Leadership and Organization Studies*, and the author of numerous books. His book *Organizational Behavior* (Irwin/McGraw-Hill) is now in its 12th edition and the groundbreaking book *Psychological Capital* (Oxford University Press) with Carolyn Youssef and Bruce Avolio will be out in its second edition in 2014. He is one of very few management scholars who is a Fellow of the Academy of Management, the Decision Sciences Institute, and the Pan Pacific Business Association, and he has been a member of the Executive Committee for the Pan Pacific Conference since its beginning 30 years ago. This committee helps to organize the annual meeting held in Pacific Rim countries. He has been involved with some of the first empirical studies on motivation and behavioral management techniques and the analysis of managerial activities in Russia; these articles have been published in the *Academy of Management Journal*, *Journal of International Business Studies*, *Journal of World Business*, and *European Management Journal*. Since the very beginning of the transition to market economies after the fall of communism in Eastern Europe, he has been actively involved in management education programs sponsored by the U.S. Agency for International Development in Albania and Macedonia, and in U.S. Information Agency programs involving the Central Asian countries of Kazakhstan, Kyrgyzstan, and Tajikistan. For example, Professor Luthans’ recent international research involves his construct of positive psychological capital (PsyCap). He and colleagues have published their research demonstrating the impact of Chinese workers’ PsyCap on their performance in the *International Journal of Human Resource Management* and *Management and Organization Review*. He is applying his positive approach to positive organizational behavior (POB), PsyCap, and authentic leadership to effective global management and has recently been the keynote at programs in China (several times), Malaysia, Korea, Indonesia, England, Norway, Finland, South Africa, and soon Italy.



JONATHAN P. DOH is the Herbert G. Rammrath Chair in International Business, founding Director of the Center for Global Leadership, and Professor of Management at the Villanova School of Business. Jonathan teaches, does research, and serves as an executive instructor and consultant in the areas of international strategy and corporate responsibility and serves as an occasional executive educator for the Aresty Institute of Executive Education at the Wharton Business School. Previously, he was on the faculty of American and Georgetown Universities and a senior trade official with the U.S. government. Jonathan is author or co-author of more than 75 refereed articles published in the top international



business and management journals, 30 chapters in scholarly edited volumes, and more than 75 conference papers. Recent articles have appeared in journals such as *Academy of Management Review*, *California Management Review*, *Journal of International Business 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* (8th ed., McGraw-Hill/Irwin, 2012), the best-selling international management text. His current research focus is on strategy for 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 is co-Editor-in-Chief of *MRN International Environment of Global Business* (SSRN Journal), Senior Editor of *Journal of World Business*, Associate Editor of *Business & Society*, and *Consulting Editor of Long Range Planning*. Beginning in January of 2015 he will assume the position of 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, and Deloitte Touche, where he served as senior external adviser to the Global Energy Resource Group. Jonathan is part of the Executive Committee of the Academy of Management Organizations and Natural Environment Division with increasing responsibilities culminating in the 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). He holds a PhD in strategic and international management from George Washington University.

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**In-Class Simulations (available on the Online Learning Center at [www.mhhe.com/luthans9e](http://www.mhhe.com/luthans9e))**

1. “Frankenfoods” or Rice Bowl for the World: The U.S.–EU Dispute over Trade in Genetically Modified Organisms
2. Cross-Cultural Conflicts in the Corning–Vitro Joint Venture

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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. And its practical impact on international management is substantial. In nearly every country, increasing numbers of large, medium, and even small corporations are going international, and a growing percentage of company revenue is derived from overseas markets. This is even true for U.S.-based companies that historically have relied on the large domestic market. Yet, the reverberations of the financial crisis and global economic recession, and continued economic and political uncertainties in many world regions present challenges for governments, corporations, and communities around the world, causing some to question the current system for regulating and overseeing international trade, investments, and global 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 later in the chapter, “Tracing the Roots of Modern Globalization”), 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. These developments both create and influence the opportunities, challenges, and problems that managers in the international arena will face during the years ahead. 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.

2

### The World of *International Management*

#### An Interconnected World

**M**ay 18, 2012, marked one of the most highly-anticipated initial public offerings (IPOs) in history. Facebook, which had grown from a college dorm room to a 900-million-member social network in just eight years, was set to offer shares to the public for the first time. As May 18 approached, founder Mark Zuckerberg, wearing his characteristic “hoodie” sweatshirt, embarked on a roadshow to promote the company. Facebook programmers celebrated with all-night “hackathons,” and huge demand for the IPO prompted Facebook to release 25 percent more shares than initially planned. The IPO price was set to \$38 per share, valuing Facebook at \$104 billion. Many analysts predicted the price would soar as high as \$60 on the first day alone. On the morning of May 18, Mark Zuckerberg ceremoniously rang a bell from Facebook’s California campus to celebrate the opening of the market at 9:30 A.M. As Wall Street’s closing bell rang just a few hours later, however, the original optimism that started the day had all but faded. The shares were trading only \$0.23 above the IPO price—and down \$3.82 from the opening bell price. In the following weeks, Facebook’s stock continued its downward trajectory. By mid-August, Facebook stock had decreased to nearly half its original offering price, leaving many to wonder, “Is social networking really here to stay?”

#### Social Media Has Changed How We Connect

Though some have second-guessed the longevity of online networks, 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. Virtually anyone on the globe is only a few clicks away. In fact, the average number of links separating any two random people on Facebook is now only 4.74.<sup>1</sup> Facebook’s statistics underscore how

social media has connected people across the globe:

- More than one billion people have active accounts on Facebook.
- More than 50 percent of these active users log onto Facebook in any given day.<sup>2</sup>
- The average user has 190 friends.<sup>3</sup>
- 3.2 billion comments and likes are uploaded per day.
- 18 percent of time spent online is dedicated to social media.<sup>4</sup>
- Over 80 percent of Facebook users are outside the United States.
- More than 70 translations are available on Facebook.
- Over 200 million people from the emerging nations of Brazil, India, Indonesia, and Mexico are now active Facebook users.<sup>5</sup>

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 Business Strategy

Procter & Gamble (P&G), which owns several of the most recognizable brands on the planet, has strategically leveraged social media to improve its long-term brand image. In 2010, P&G unveiled a Billion Acts of Green™ Facebook application which allows people to "make a pledge to lessen their environmental impact and promote environmentally beneficial habits to friends and family via social media channels." This social media application enables users to share their "act of green" pledges with their Facebook network. As of 2013, there were over one billion acts of green pledged.<sup>6</sup>

P&G has also utilized social networking to increase revenue. After stagnant sales in 2010, P&G decided to refocus the advertising of Pepto-Bismol online. By monitoring Facebook activity, P&G discovered that the most social media buzz regarding Pepto-Bismol was occurring on weekend mornings, likely after customers had overindulged the night before. To tap into this market, P&G created a Facebook initiative called "Celebrate Life." Within one year, Pepto-Bismol gained 11 percent market share.<sup>7</sup>

The following year, in 2011, Secret deodorant sales began to drop. In an effort to shift its advertising toward teenage females, P&G created a Facebook marketing campaign that addressed the issue of bullying. Titled "Mean Stinks," the campaign encouraged users to "like" the Facebook page and share stories and videos. This campaign increased activity on Secret's Facebook page by 25 times, and sales spiked by 9 percent over a six-month period.<sup>8</sup>

Through its use of Facebook, P&G has connected with millions of people around the world at little cost to increase sales and enhance its brand. Businesses have gained huge competitive edges by seizing the opportunities inherent in this new global society of online social networks.

### Social Media Has Changed How We Do Business

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."<sup>9</sup>

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.<sup>10</sup>

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 Diplomacy

In February 2010, Washington sent an unconventional delegation to Moscow, which 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 serves on 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.

Though the disappointing Facebook IPO left many to initially question the value and longevity of social media, the pace of interconnectivity across the globe has not slowed. Social media has altered the way that we interact with each other, and businesses, like P&G, 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, such as the recession of 2008–2009, globalization is moving 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.

#### 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 contexts.

## ■ 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.



**Table 1–1**  
**The World's Top Nonfinancial TNCs, Ranked by Foreign Assets, 2012**  
 (in millions of dollars)

Rank	Company Name	Home Economy	Foreign Assets	Total Assets	Foreign Sales	Total Sales
1	General Electric	United States	\$338,157	\$685,328	\$75,640	\$144,796
2	Royal Dutch/ Shell plc	Netherlands/ United Kingdom	307,938	360,325	282,930	467,153
3	British Petroleum Company Plc	United Kingdom	270,247	300,193	300,216	375,580
4	Toyota Motor Corporation	Japan	233,193	376,841	170,486	265,770
5	Total SA	France	214,507	227,107	180,440	234,287
6	Exxon Mobil Corporation	United States	214,349	333,795	301,840	420,714
7	Vodafone Group Plc	United Kingdom	199,003	217,031	62,065	70,224
8	GDF Suez	France	175,057	271,607	78,555	124,711
9	Chevron Corporation	United States	158,865	232,982	132,743	222,580
10	Volkswagen Group	Germany	158,046	409,257	199,129	247,624

Source: UNCTAD *World Investment Report 2013*, Web Table 28.

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 Avon Products, Chevron, Citicorp, Coca-Cola, Colgate Palmolive, Du Pont, ExxonMobil, Eastman Kodak, Gillette, Hewlett-Packard, McDonald's, Motorola, Ralston Purina, Texaco, the 3M Company, and Xerox have all earned more annual revenue in the international arena than they have stateside. GE, one of the world's largest companies, with 2012 revenue of more than \$147 billion, earned 57 percent of its industrial revenue from overseas that year. Table 1–1 lists the world's top nonfinancial companies ranked by foreign assets in 2012.

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, Ping An, Rambaxy, Telefonica, Santander, Reliance, Samsung, Grupo Televisa, 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. Vehicle sales in China reached a record 19.3 million units in 2012, according to the China Association of Automobile Manufacturers, far ahead of the 14.5 million cars and light trucks sold in the U.S.<sup>11</sup> Moreover, a number of Chinese auto companies are becoming global players through their exporting, foreign investment, and international acquisitions, including the purchase by Geely of ailing Ford unit Volvo, Fiat's investment in Chrysler, and Tata's purchase of Jaguar-Land Rover.

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.<sup>12,13</sup>

In September 2012, Procter and Gamble relocated their skin care, cosmetics, and personal care headquarters from Cincinnati to Singapore. According to P&G, Asia accounts for roughly half of the skin care market globally, and, with the growing prosperity in Asia, is expected to continue to expand.<sup>14</sup> Similarly, citing the massive growth in the healthcare market in Asia, General Electric moved its X-ray business headquarters to China in 2011, and vice chairman John Rice relocated to Hong Kong.<sup>15,16</sup>

#### MNC

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

**Table 1–2**  
**The World’s Top Nonfinancial TNCs from Developing and Transitioning Economies,**  
**Ranked by Foreign Assets, 2011**  
 (in millions of dollars)

Rank	Company Name	Home Economy	Foreign Assets	Total Assets	Foreign Sales	Total Sales
1	Hutchison Whampoa Limited	Hong Kong/ China	\$77,291	\$92,788	\$23,477	\$30,023
2	CITIC Group	China	71,512	514,847	9,923	51,659
3	Hon Hai Precision Industries	Taiwan	52,198	57,451	114,285	117,992
4	Vale SA	Brazil	48,045	128,728	49,475	60,389
5	China Ocean Shipping (Group) Company	China	40,435	52,230	19,454	29,579
6	Petronas – Petroliam Nasional Bhd	Malaysia	38,907	150,435	43,228	72,853
7	Cemex S.A.B. de C.V.	Mexico	34,601	39,191	11,792	15,208
8	America Movil SAB De CV	Mexico	32,694	67,590	38,315	53,553
9	VimpelCom Ltd	Russian Federation	29,829	54,039	11,280	20,262
10	China National Offshore Oil Group	China	29,802	112,887	19,786	75,518

Source: UNCTAD *World Investment Report 2013*, Web Table 29.

IBM, another American archetype, had about 433,000 employees globally in 2012, with only about 95,000 in the U.S. This is fewer than in India, which has about 130,000 IBM employees. In 2011, IBM drew 64 percent of its \$100 billion in revenue from overseas.<sup>17</sup> With a focus on large-scale projects in emerging markets, such as building a wireless phone network across Africa, IBM plans to receive 30 percent of its revenue from emerging markets by 2015.<sup>18,19</sup> As of 2012, IBM had operations in over 20 African nations, and, in August 2012, IBM announced the opening of a research lab in Kenya.<sup>20</sup> More than half of IBM’s research staff are currently located outside of the United States.

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. Table 1–2 lists the world’s top nonfinancial companies from developing countries ranked by foreign assets in 2011.

## ■ 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

**Globalization** can be defined as the process of social, political, economic, cultural, and technological integration among countries around the world. Globalization is distinct

#### globalization

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

## 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, Francesco 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.

**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 external organizations that had previously been performed by the firm.

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.<sup>21</sup> Hence, in recent years, globalization has accelerated, creating both opportunities and challenges to global business and international management.

On the plus 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.<sup>22</sup> These pressures can be seen in protests at the meetings of the World Trade 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.<sup>23</sup>

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.<sup>24</sup> 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.<sup>25</sup>

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 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 Nokia Corp. experienced the destruction of thousands of cellular phones due to a lack of storage space at an airport during a rainstorm. With India’s public debt at around 70 percent of GDP, the country now stands where China did a decade ago. 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.<sup>26</sup>

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

## Outsourcing and Offshoring

The concepts of outsourcing and offshoring are not new, but these practices are growing at an extreme rate. *Offshoring* refers to the process by which companies undertake some activities at offshore locations instead of in their countries of origin. *Outsourcing* is the subcontracting or contracting out of activities to external organizations that had previously been performed within the firm and is a wholly different phenomenon. Often the two combine to create “offshore outsourcing.” Offshoring began with manufacturing operations. Globalization jump-started the extension of offshore outsourcing of services, including call centers, R&D, information services, and even legal work. During 2006, Du Pont hired attorneys in Manila to oversee documentation in preparation for legal cases. The company hopes to save an estimated \$6 million in legal spending by moving offshore and cutting documentation by 40 to 60 percent once everything is scanned and digitally saved. This is a risky venture as legal practices are not the same across countries, and the documents may be too sensi-

tive to rely on assembly-line lawyers. It also raises the question as to whether or not there are limitations to offshore outsourcing. Many companies, including Deutsche Bank, spread offshore outsourcing opportunities across multiple countries such as India and Russia for economic or political reasons. The advantages, concerns, and issues with offshoring span a variety of subjects. Throughout the text we will revisit the idea of offshore outsourcing as it is relevant. Here in Chapter 1 we see how skeptics of globalization wonder if there are benefits to offshore outsourcing, while in Chapter 2 we see how these are related to technology, and finally in Chapter 14 we see how offshore practices affect human resource management and the global distribution of work.

*Source:* Pete Engardio and Assif Shameen, “Let’s Offshore the Lawyers,” *BusinessWeek*, September 18, 2006, p. 42; and Tony Hallett and Andy McCue, “Why Deutsche Bank Spreads Its Outsourcing,” *BusinessWeek*, March 15, 2007.

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 create wealth that will enable new industries to employ more modern, environmentally friendly technology. We discuss the social and environmental aspects of globalization in more detail in Chapter 3.

These contending perspectives are unlikely to be resolved anytime soon. Instead, a vigorous debate among countries, MNCs, and civil society will likely continue and affect the context in which firms do business internationally. Business firms operating around the world must be sensitive to different perspectives on the costs and benefits of globalization and adapt and adjust their strategies and approaches to these differences.

## Global and Regional Integration

One important dimension of globalization is the increasing economic integration among countries brought about by the negotiation and implementation of trade and investment agreements. Here we provide a brief overview of some of the major developments in global and regional integration.

Over the past six decades, succeeding rounds of global trade negotiations have resulted in dramatically reduced tariff and nontariff barriers among countries. Table 1–3 shows the history of these negotiation rounds, their primary focus, and the number of countries involved. These efforts reached their crest in 1994 with the conclusion of the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) and the creation of the **World Trade Organization (WTO)** to

### World Trade Organization (WTO)

The global organization of countries that oversees rules and regulations for international trade and investment.