Chapter 1

Globalization

**Learning Objectives:**

1. Describe the process of globalization and how it affects markets and production.

2. Identify the two forces causing globalization to increase.

3. Summarize the evidence for each main argument in the globalization debate.

4. Identify the types of companies that participate in international business.

5. Describe the global business environment and identify its four main elements.

**Chapter Outline:**

Introduction

International Business Involves Us All

Technology Makes It Possible

Global Talent Makes It Happen

Globalization

Globalization of Markets

Reduces Marketing Costs

Creates New Market Opportunities

Levels Uneven Income Streams

Yet Local Needs Are Important

Globalization of Production

Access Lower-Cost Workers

Access Technical Expertise

Access Production Inputs

Forces Driving Globalization

Falling Barriers to Trade and Investment

World Trade Organization

Regional Trade Agreements

Trade and National Output

Technological Innovation

E-mail and Videoconferencing

Internet and World Wide Web

Company Intranets and Extranets

Advancements in Transportation Technologies

Measuring Globalization

Untangling the Globalization Debate

Today’s Globalization in Context

Introduction to the Debate

Globalization’s Impact on Jobs and Wages

Against Globalization

Eliminates Jobs in Developed Nations

Lowers Wages in Developed Nations

Exploits Workers in Developing Nations

For Globalization

Increases Wealth and Efficiency in All Nations

Generates Labor Market Flexibility in Developed Nations

Advances Economies of Developing Nations

Summary of the Jobs and Wages Debate

Globalization’s Impact on Labor, the Environment, and Markets

Labor Standards

Environmental Protection

Future Markets

Globalization and Income Inequality

Inequality within Nations

Inequality between Nations

Global Inequality

Summary of the Income Inequality Debate

Globalization and National Sovereignty

Globalization: Menace to Democracy?

Globalization: Guardian of Democracy?

Globalization’s Influence on Cultures

Key Players in International Business

Multinational Corporations

Entrepreneurs and Small Businesses

Why International Business Is Special

The Global Business Environment

The Road Ahead for International Business

Bottom Line for Business

 A comprehensive set of specially designed PowerPoint slides is available for use with Chapter 1. These slides and the lecture outline below form a completely integrated package that simplifies the teaching of this chapter’s material.

|  |  |
| --- | --- |
| **Lecture Outline** |  |

1. INTRODUCTION

Globalization is reshaping our cultures, our political, legal, and economic systems, and affecting our standards of living. It alters the global pattern of trade and investment by expanding markets and multiplying production possibilities.

1. International Business Involves Us All

1. Each of us encounters the result of international business transactions every day whether we realize it or not.

2. *International business* is any commercial transaction that crosses the borders of two or more nations.

3. *Imports* are goods and services purchased abroad and brought into a country. *Exports* are goods and services sold abroad and sent out of a country.

1. Technology Makes It Possible

1. Technology is a remarkable facilitator of international business and change.

2. *E-business (e-commerce)* is the use of computer networks to purchase, sell, or exchange products; service customers; and collaborate with partners.

1. Global Talent Makes It Happen

1. Development and production now regularly occur on a global basis for many goods and services.

2. Performing these globally *increases firm efficiency and competitiveness*.

2. GLOBALIZATION

*Globalization*is the trend toward greater economic, cultural, political, and technological interdependence among national institutions and economies. It is marked by “denationalization,” which is *not* “internationalization.” It embraces concepts and theories from economics, political science, sociology, anthropology, and philosophy.

A. Globalization of Markets

* 1. Convergence in buyer preferences in markets around the world
1. Reduces marketing costs by *standardizing* activities
2. Creates market opportunities abroad if home is small or saturated
3. Levels uneven income streams for global seasonal products
4. Yet companies must not overlook buyers’ needs

B. Globalization of Production

* 1. Dispersal of production activities to locations that help a company to minimize costs or maximize quality
1. Access lower-cost workers to cut overall production costs
2. Access technical expertise
3. Access production inputs unavailable or more costly at home

Note: The above material is covered in Chapter One PowerPoint slides from 1 to 10.

Think-Pair-Share – Slide 11

3. FORCES DRIVING GLOBALIZATION

Forces increase competition among nations by leveling the global business playing field.

A. Falling Barriers to Trade and Investment

*1947 General Agreement on Tariffs and Trade (GATT)* was designed to promote free trade by reducing tariffs and nontariff barriers. 1994 GATT revision (1) reduced tariffs and lowered subsidies for agricultural products; (2) defined and protected intellectual property rights; and (3) created the WTO.

1. World Trade Organization

a. *World Trade Organization (WTO)* is the international organization that enforces the rules of international trade.

b. WTO goals: (1) to help the free flow of trade, (2) help negotiate the further opening of markets, and (3) settle trade disputes.

c. WTO agreements are contracts committing members to fair and open trade policies. WTO dispute settlement system is the spine of the global trading system.

2. Regional Trade Agreements

a. Smaller groups of nations also are integrating their economies (e.g., NAFTA, European Union).

3. Trade and National Output

a. Effect of the WTO and regional trade pacts is greater global trade and cross-border investing (Map 1.1).

1. Trade growth has been faster than world output.
2. *Gross Domestic Product (GDP)* is the value of all goods and services produced by a domestic economy over a one-year period. *Gross national product (GNP)* adds income from international activities.

B. Technological Innovation

Technology accelerates globalization by making it easier, faster, and less costly to move data, goods, and equipment around the world.

* 1. E-mail and Videoconferencing

a. Speed information flows and ease the tasks of coordination and control, which are complicated by operating across borders.

b. Driving growth in videoconferencing are lower-cost bandwidth and equipment, and decreased travel for cost or safety reasons.

* 1. Internet and World Wide Web

a. Helps firms sharpen forecasting, lower inventories, improve communication with suppliers, and communicate quickly and cheaply with distant managers

b. Reduces the cost of reaching an international customer base, which is essential for the competitiveness of small firms

* 1. Company Intranets and Extranets

a. *Intranets* are private networks of company Web sites and other information sources that allow employee access to information from distant locations.

b. *Extranets* are computer networks that give distributors and suppliers access to a company’s database so they can place orders or restock inventories electronically and automatically.

* 1. Advancements in Transportation Technologies

a. Make global shipping more efficient and dependable (e.g., GPS)

1. Measuring Globalization

1. The KOF Index of Globalization,measures 24 different variables within three dimensions: economic, social, and political globalization. Its records show changes in globalization by comparing 187 countries over a long-term period (1970–2012). The globalization of a country is measured on a scale from 1 to 100, with higher numbers indicating greater levels of globalization. Some of the factors considered for each of the three main dimensions:

**1. Economic globalization:** Trade and investment flows, and trade barriers.

**2. Social globalization:** Flow of ideas and information.

**3. Political globalization:** Degree of political cooperation between countries.

The KOF Index of Globalization 2012 still shows the impact of the 2009 financial and world economic crisis. Nonetheless, overall there has been a progressive upward trend in globalization

 since the 1970’s (see Figure 1.2 ).2. Figure 1.3 shows the 15 highest-ranking nations in the latest KOF Index of Globalization. It shows each nation’s overall rank and its rank for each of the three dimensions described earlier: (1) economic globalization; (2) social globalization; and (3) political globalization. Europe accounts for 9 of the top 10 spots, while Canada appears as number 15. Belgium, Ireland, The Netherlands, and Austria are the most globalized nations. In the KOF Index 2012, Singapore

ranks number 5, but remains number 1 in terms of economic globalization.3. The least global nations are found in Africa, East Asia, South Asia, Latin America, and the Middle East. Low technological connectivity slows global integration.

4. UNTANGLING THE GLOBALIZATION DEBATE

People can view globalization from vastly different perspectives.

A. Today’s Globalization in Context

1. First age of globalization extended from the mid-1800s to the 1920s. Migration levels reached record highs, domestic workers faced competition from cheaper labor abroad, and trade and capital flowed more freely than ever before.

2. Drivers of that first age of globalization were the steamship, telegraph, railroad, telephone, and airplane.

3. World War I, the Russian Revolution, and the Great Depression abruptly ended that first age of globalization. Globalization backlash led to high tariffs and other barriers.

4. Geographic divide between East and West became an ideological divide between communism and capitalism. International capital flows regained their prior pace but not until the 1990s.

5. Drivers of this second age of globalization are communication satellites, fiber optics, microchips, and the Internet.

B. Introduction to the Debate

1. The *World Bank* is an agency created to provide financing for national economic development efforts.

2. The *International Monetary Fund (IMF)* is an agency created to regulate fixed exchange rates and enforce the rules of the international monetary system.

C. Globalization’s Impact on Jobs and Wages

* 1. Against Globalization

a. *Eliminates jobs in developed nations* as good-paying manufacturing jobs go abroad to developing countries. Low-priced goods are not worth lost jobs.

1. *Lowers wages in developed nations* by causing worker dislocation that gradually lowers wages. New jobs that replace lost manufacturing jobs often pay less.
2. *Exploits workers in developing nations* who work cheaply servicing western consumers.
3. *Summary*: Although globalization eliminates jobs in some economic sectors, it creates jobs in other sectors.
	1. For Globalization

a. *Increases wealth and efficiency in all nations* because trade openness raises output. Firms grow more efficient and pass savings on to consumers.

b. *Generates labor market flexibility in developed nations* that allows an economy to rapidly deploy labor where demand is relatively great.

c. *Advances economies of developing nations* by injecting capital that creates higher-paying jobs, which expands the middle class and raises standards of living.

d. *Summary*: Gains to national economies are worth lost livelihoods that individuals may suffer.

D. Globalization’s Impact on Labor, the Environment, and Markets

1. Labor Standards

a. Trade unions claim that firms continually move to nations with low labor standards, which reduces labor’s bargaining power and forces overall labor standards lower.

b. But studies of developing nations’ export processing zones instead find evidence that contradicts such claims.

2. Environmental Protection

a. Globalization opponents say it creates a “race to the bottom” in environmental conditions and regulations: countries compete in reducing environmental protection laws.

b. But evidence shows pollution-intensive U.S. firms tend to invest in countries with stricter environmental standards. Also, closed economies historically are the worst polluters.

3. Future Markets

a. Protesters claim international firms pay locals the lowest possible wage and export their goods back to the home country.

b. Today, firms want to build local markets in developing nations, not simply exploit workers and foment local animosity.

E. Globalization and Income Inequality

1. Inequality within Nations

a. Globalization critics claim that income disparity in rich nations is increasing as firms move factory jobs to poor nations.

b. Evidence is mixed, but poor people in developing nations seem to benefit from an open economy.

2. Inequality between Nations

a. Globalization opponents say it is widening the gap in average incomes between rich and poor nations.

b. Looking closely at the evidence, we see that open nations are benefiting from trade while closed ones are not.

3. Global Inequality

a. Opponents of globalization say it is widening income inequality among all people of the world.

b. Studies tend to agree that global inequality has fallen in recent decades, though they disagree on the extent of the decline.

 Note: The above material is covered in Chapter One PowerPoint slides from 12 to 29.

Slide 30 Think-Pair-Share

F. Globalization and National Sovereignty

1. Globalization: Menace to Democracy?

a. Supranational institutions with international goals and appointed officials undermine national sovereignty and democracy.

b. Elected officials undercut democracy and local and regional authority with “international” agreements on citizens’ behalf.

2. Globalization: Guardian of Democracy?

1. Globalization has helped spread democracy worldwide (e.g., more democratic nations than ever).

b. Some losses of sovereignty have had positive social impacts, as in human rights, workers’ rights, and discrimination.

G. Globalization’s Influence on Cultures

1. Critics say globalization homogenizes our world and lets MNCs destroy cultural diversity and wipe out small local businesses.

2. Yet globalization allows nations to: (1) specialize and trade for goods they do not produce, (2) import other peoples’ cultural goods, and (3) still protect deeper moral and cultural norms.

5. KEY PLAYERS IN INTERNATIONAL BUSINESS

Large firms from developed nations once dominated, but firms from Brazil, China, and India now play a bigger role. Technological advancements allow small and midsize companies to better compete.

A. Multinational Corporations

An *MNC* is a business that has direct investments abroad in multiple countries. They generate significant jobs, investment, and tax revenue for the regions and nations they enter.

1. Profiling the Largest Multinationals

a. If Wal-Mart were a country, it would rank just behind Switzerland in terms of economic power (Figure 1.2).

1. Some MNCs have more employees than the smallest nations have citizens (e.g., Wal-Mart has more than 2 million employees globally).

B. Entrepreneurs and Small Businesses

1. They are increasingly active in international business by exporting earlier and growing faster with help from technology.
2. A *born global firm* is a company that adopts a global perspective and engages in international business from or near its inception. Today they arise from developed and developing nations alike.
3. Some small Internet companies reach customers solely through the Web.

6. WHY INTERNATIONAL BUSINESS IS SPECIAL

What makes international business special is that it occurs within a dynamic, integrated system that weaves together four distinct elements.

A. The Global Business Environment

1. *Globalization* is transforming our societies and commercial activities. It also *increases competition* everywhere, forcing companies to be vigilant.

2. Each *national business environment* consists of unique cultural, political, legal, and economic characteristics. Companies must be attentive to nuances and adapt products and practices as needed.

3. The *international business environment* influences how business is conducted so firms must closely monitor events.

4. Context of *international business management* is defined by the characteristics of the national and international business environments. Managers must abide by the prevailing rules in each market in which it operates.

B. The Road Ahead for International Business

Part 1 (Chapter 1): The forces of Globalization

Part 2 (Chapters 2–5): National Business Environments

Parts 3 and 4 (Chapters 6 to 9): International Business Environment

Part 5 (Chapters 10 to 12): International Firm Management

7. BOTTOM LINE FOR BUSINESS

A. Harnessing Globalization’s Benefits

1. The most global nations tend to have the greatest equality, robust environmental protection, inclusive political systems, lowest levels of corruption, healthiest lifestyles, and be where women have achieved the most social, educational, and economic progress.

2. The debate has opened a dialogue on how globalization can be harnessed to make its benefits exceed its costs.

B. Intensified Competition

1. Continued globalization is taking companies into previously isolated markets and increasing competitive pressures worldwide.

2. As it gets easier and less costly to manage widely dispersed marketing and production activities, new opportunities and threats emerge.

C. Wages and Jobs

1. Low wages are not all that draws investment by multinationals. A location must offer low-cost, adequately skilled workers in an environment with acceptable levels of social, political, and economic stability.

2. Labor mobility is increasing with globalization—depressing wages in some job categories but developing new job opportunities in others.

D. The Policy Agenda

1. Rich nations could open their markets, slash agricultural subsidies, and increase development aid. Poor nations could improve their investment climates, and improve social protection for the poor.

2. Rich nations could offer workers their wage insurance, subsidized health insurance if out-of-work, and improve education. Rich nations could help enforce labor standards, help clarify environmental agreements, and research the environmental implications of trade agreements.

|  |  |
| --- | --- |
| **Quick Study Questions** |  |

**Quick Study 1 (p. 5)**

1. Q: *Define the term international business, and explain how it affects each of us.*

A: *International business* is any commercial transaction that crosses the borders of two or more nations. International business involves each of us every day. We consume goods that originate outside our borders or that contain components made abroad. We also consume services, such as a news broadcast or music entertainment, that are sent to us from abroad.

2. Q: *What do we mean by the terms imports and exports?*

A: *Imports* are goods and services purchased abroad and brought into a country. *Exports* are goods and services sold abroad and sent out of a country.

3. Q: *Explain how e-business (e-commerce) is affecting international business.*

A: *E-business (e-commerce)* is the use of computer networks to purchase, sell, or exchange products; service customers; and collaborate with partners. E-business is making it easier for companies to make their products abroad, not just import and export finished goods. It also helps companies improve efficiency in international operations and boost competitiveness.

**Quick Study 2 (p. 9)**

1. Q: *Define globalization. How does denationalization differ from internationalization?*

A: *Globalization* is the trend toward greater economic, cultural, political, and technological interdependence among national institutions and economies. It is a trend characterized by denationalization (in which national boundaries are becoming less relevant), and is different from internationalization (which refers to cooperation between national actors).

2. Q: *List each benefit a company might obtain from the globalization of markets.*

A: Globalization of markets refers to convergence in buyer preferences in markets around the world. Potential benefits for companies include: (1) reduced marketing costs by standardizing activities, (2) market opportunities abroad if home market is small or saturated, and (3) levels an income stream by letting international sales offset domestic sales for a company selling a global seasonal product.

3. Q: *How might a company benefit from the globalization of production?*

A: Globalization of production refers to the dispersal of production activities to locations that help a company minimize costs or maximize quality of a good or service. Potential benefits for companies include: (1) access lower-cost labor to cut production costs, (2) access technical expertise, and (3) access production inputs unavailable or costly at home.

**Quick Study 3 (p. 16)**

1. Q: *What two main forces underlie the expansion of globalization?*

A: The two forces underlying the expansion of globalization are: (1) falling barriers to trade and investment, and (2) technological innovation.

2. Q: *How have global and regional efforts to promote trade and investment advanced globalization?*

A: Global Efforts: The 1947 GATT lowered trade barriers and made it cheaper and easier to ship goods across borders. In 1988 world merchandise trade was 20 times larger than in 1947; average tariffs dropped from 40 percent to 5 percent. A 1994 GATT revision created the WTO, which has the power to enforce international trade rules. Goals of the WTO are: (1) to help the free flow of trade, (2) help negotiate further opening of markets, and (3) settle trade disputes. WTO agreements are contracts committing members to fair and open trade policies. The WTO dispute settlement system is the spine of the global trading system. Regional Efforts: Smaller groups of nations are banding together in regional trade agreements with similar objectives. Examples are NAFTA and the EU. The combined effect of global and regional efforts: international trade and investment is growing faster than world output.

3. Q: *How does technological innovation propel globalization?*

A: E-mail and videoconferencing speed information flows and ease the tasks of coordination and control. Firms use the Web to sharpen forecasting, lower inventories, and improve communication with suppliers, and to communicate with distant managers quickly, cheaply, and efficiently. The Web also reduces the cost of reaching international customers—important for the competitiveness of small firms. Company intranets allow employees to access information from distant locations to share best practices. Extranets give distributors and suppliers access to a company’s database so they can place orders or restock inventories electronically and automatically. Transportation advancements are facilitating globalization by making shipping more efficient and dependable.

4. Q: *What factors make some countries more global than others?*

A: Four factors make a country more global: (1) political engagement, (2) technological connectivity, (3) personal contact, and (4) economic integration. The seven most global countries according to recent data are (beginning with first place): Singapore, Hong Kong, the Netherlands, Switzerland, Ireland, Denmark, and the United States.

1. Q: *What measures does Canada need to take in order to rank higher in the KOF Index of Globalization?*

A: Canada ranks number 35 in the KOF Index of Globalization, with a score of 76.05 in the economic dimension. One could argue that the efforts the Canadian government has put into diversification of trade over the past five years by negotiating and signing several trade agreements have not yet paid off. On the other hand, Canada ranked number 7 in terms of social globalization, scoring 88.72, and number 10 in political globalization, scoring 94.16.

**Quick Study 4 (p. 18)**

1. Q: *How does this current period of globalization compare with the first age of globalization?*

A: Whereas the first age of globalization (mid-1800s to 1920s) encompassed mostly rich nations, this second age reaches into developing and emerging economies. Like today, migration levels were very high, domestic workers faced competition from cheaper labor abroad, and trade and capital flowed freely. Drivers of that first age of globalization were the steamship, telegraph, railroad, telephone, and airplane. Drivers of this second age include communication satellites, fiber optics, microchips, and the Internet.

2. Q: *Explain the original purpose of the World Bank and its mandate today.*

A: The *World Bank* is anagency created to provide financing for national economic development efforts. Its initial purpose was to finance European reconstruction following the Second World War. It later shifted its focus to the general financial needs of developing countries. Today it finances many economic development projects in Africa, South America, and Southeast Asia.

3. Q: *What are the main purposes of the International Monetary Fund?*

A: The *International Monetary Fund* is anagency created to regulate fixed exchange rates and enforce the rules of the international monetary system. Some of the purposes of the IMF include: promoting international monetary cooperation; facilitating expansion and balanced growth of international trade; avoiding competitive exchange devaluation; and making financial resources temporarily available to members.

**Quick Study 5 (p. 22)**

1. Q: *What are the claims of those who say globalization eliminates jobs, lowers wages, and exploits workers?*

A: (1) Globalization eliminates manufacturing jobs in developed nations as jobs are sent to nations with lower wages. Also, the new jobs that globalization creates pay less than manufacturing jobs lost. And reduced prices for imported goods are little consolation for workers who have lost their jobs. (2) Globalization lowers wages in developed nations as jobs move abroad and competition increases for the remaining jobs, gradually depressing wages. (3) Globalization exploits workers in developing nations because multinationals operate where labor standards are low by comparison. People in developing nations have few employment options and no power to counter manipulative employment practices.

2. Q: *Identify the arguments of those who say globalization creates jobs and boosts wages.*

A: (1) Globalization raises overall wealth in developed and developing nations because trade openness raises the output of a nation. It also allows firms to become more efficient and pass savings on to consumers. (2) Globalization generates labor market flexibility that allows an economy to rapidly deploy labor where demand is relatively great, which lets workers leave jobs and find new work fairly quickly. (3) Globalization advances developing nations’ economies by injecting capital that creates higher-paying jobs than would otherwise be available, which expands the middle class and raises standards of living.

3. Q: *Why do critics say globalization adversely affects labor standards, environmental regulations, and future markets?*

A: The major complaint of those opposed to globalization is that multinational firms contribute to slack labor and environmental protection laws. They say that because multinationals are in constant pursuit of lower costs, they seek out locales with less strict labor and environmental regulation to reduce the cost of operating in those environments. They argue that multinationals thus put downward pressure on labor and environmental standards worldwide.

4. Q: *How do supporters of globalization argue that it does not harm labor standards, environmental regulations, and future markets?*

A: First, research shows that pollution-intensive U.S. firms tend to invest in countries having stricter environmental standards. In fact, many developing nations liberalized their foreign investment environment while simultaneously enacting *stricter* environmental legislation. If multinationals were eager to seek out nations with the worst environmental protection laws, they would have avoided that group of nations instead of pouring enormous sums of investment into them over decades.

Second, when analyzing a country prior to investing, multinationals today often search for a future market for its goods as well as a production base. In such a scenario, any rational management team would not enter a market with draconian labor and environmental regulations, depressed local wages, and an awful environment, where the locals cannot hope to one day afford to purchase the very items they produce.

**Quick Study 6 (p. 26)**

1. Q: *What does the evidence suggest for each branch of the debate over globalization and income inequality?*

A: First, regarding the debate over inequality within nations, studies suggest that developing nations can boost incomes of their poorest members of society by integrating them into the global economy. Second, in the debate over inequality between nations, it appears that more nations open to trade and investment grow faster than wealthy nations, whereas sheltered economies are worse off. Thus, countries advance their economies by being open, not closed, to global business. Third, the global inequality debate has generally concluded that global poverty has fallen in recent decades, though there is disagreement on the extent of the drop. Standardized sources and methods are needed.

2. Q: *What are each side’s arguments in the debate over globalization’s impact on national sovereignty?*

A: Those *opposed* to globalization claim that supranational institutions, including the WTO, IMF, and UN, consist of appointed, not democratically elected, representatives who impose their will upon citizens of nations. They argue that ceding political authority to such organizations undercuts the legal authority of national, regional, and even local governments, and undercuts democracy itself.

Those *favoring* globalization argue that an amazing consequence of globalization has been the spread of democracy worldwide. People in democracies are better educated, better informed, more assertive, and are challenging elites and the old ways of doing things. Supporters of globalization also argue that national sovereignty must be viewed in the long run, and that consideration must be made of the positive outcomes of international cooperation. UN accords made significant progress in important areas such as women’s rights and racial discrimination.

3. Q: *Summarize the claims of each side in the debate over globalization’s influence on cultures.*

A: (1) Globalization *critics* fear it is homogenizing the world and destroying its rich diversity of cultures. In some drab, new world we all will wear the same clothes bought at the same brand-name shops, eat the same foods at the same brand-name restaurants, and watch the same movies made by the same production companies. (2) It is also feared that cultural diversity will be reduced through universal products, as local businesses cannot compete with large MNCs.

(1) Globalization *supporters* counter that it allows each nation to profit from differing circumstances and skills. Trade allows a country to specialize in producing those goods and services in which it is most efficient. It can then trade those products to other nations in exchange for goods and services it desires but does not produce. (2) Focusing only on consumer goods examines only the most superficial aspects of culture. (3) Throughout the past century, the music, art, and literature of developing countries has thrived and gained international attention through globalization.

**Quick Study 7 (p. 30)**

1. Q: *Why do large multinational corporations dominate international business?*

A: (1) The economic and political muscle of large firms makes them highly visible in the eyes of the media. Large companies generate significant jobs, investment, and tax revenue for the regions and nations they enter. Likewise, they can leave many hundreds, perhaps thousands of people, out of work when they close or scale back operations. (2) Their dealings typically involve huge sums of money. It is common for the income and deals of large firms, such as M&As, to be valued in the billions.

2. Q: *Explain why small companies and born global firms are increasingly involved in international business.*

A: Small firms are increasingly international because traditional distribution channels are more accessible and technology makes it easier to communicate and transport products. Born global firms tend to be innovative and knowledge based and often rise to the level of international competition in a very short period of time.

3. Q: *Describe the global business environment and how its main elements interact.*

A: It is helpful to view international business as occurring within an integrated, *global business environment*. Four elements comprise the global business environment: (1) *Globalization* is a potent force transforming our societies and commercial activities. Globalization increases competition and produces significant changes in how a society operates. (2) Separate *national business environments*, which include elements related to culture and systems of politics, law, and economics, can vary greatly across nations. Companies must be aware of such differences and adapt products and processes as needed. (3) The *international business environment*, which is where the actions of consumers, workers, companies, financial institutions, and governments from different nations converge. As globalization continues, flows of trade, investment, and capital are becoming more entwined—often causing firms to look simultaneously for production bases *and* markets. (4) *International business management* differs from management of a domestic firm in nearly all respects. When a firm ventures into international business, environmental forces present it with many challenges and opportunities. Thus, the context of international business management is defined by the characteristics of each of the other three factors presented here.

|  |  |
| --- | --- |
| **Talk It Over** |  |

1. Q: Today, international businesspeople must think globally about production and sales opportunities. Many global managers will eventually find themselves living and working in cultures altogether different from their own. Many entrepreneurs will find themselves booking flights to places they had never heard of. What do you think companies can do now to prepare their managers for these new markets? What can entrepreneurs and small businesses with limited resources do?

A: Large companies can keep a watchful eye on such markets by conducting preliminary studies periodically on each potential market it is considering. Companies can conduct such studies in-house or commission them from independent organizations. They can also send key managers that would oversee such new investments to the market to familiarize themselves with the local culture and begin making contacts.

However, entrepreneurs and small companies often do not have the money for expensive studies. But they can afford to follow events in potential markets through the international media—especially the international business press. They can also purchase existing surveys of potential markets from international research agencies—usually available for a reasonable fee. They can also seek out the advice and counsel of local retired businesspeople with international experience and contact their local Small Business Administration office (or similar agency outside the United States). The Web is a valuable tool for obtaining a great deal of free information.

2. Q: *In the past, national governments greatly affected the pace of globalization through agreements to lower barriers to international trade and investment. Is the pace of change now outpacing the capability of governments to manage the global economy? Will national governments become more or less important to international business in the future? Explain your answer.*

A: The first part of the question addresses the fact that the GATT was initially very successful but lost much of its relevance in the mid-1980s with regard to services and erupting trade disputes. Governments then tried to update institutions to suit the changed business environment. In answering, students should identify the Internet as an evolving international business tool which governments are finding difficult to regulate and establish jurisdiction over. Students may also mention the inability of supranational agencies to forecast many recent economic crises worldwide.

The second part of this question gets students to consider the power of large multinational and global companies relative to national governments. Students might identify political lobbying that companies undertake to get favorable legislation passed. On the other hand, students might identify the power of governments to control their own national business environment—albeit perhaps with an attached cost.

3. Q: *Information technologies are developing at a faster rate than ever before. How have these technologies influenced globalization? Give specific examples. Do you think globalization will continue until we all live in one “global village”? Why or why not?*

A: Information and communication technologies are facilitating the process of globalization in many ways. Through e-mail and videoconferencing, companies are better able than ever before to keep in touch with far-flung subsidiaries, suppliers, and customers. Intranets and extranets are facilitating the timely restocking of inventories by suppliers and the ordering of merchandise by buyers. The effect of these technologies has been to remove some of the pain associated with conducting day-to-day operations for international companies—causing them to look more favorably on new international ventures.

Students should first question what a “global village” is, and give answers depending upon their definition. Are we talking about an “economic village” or a “true village” that entails cultural homogenization? We are currently witnessing an era of increasing interaction among nations (despite the recent global recession), but it is not certain this will continue. Such times have occurred at other points in history only to result in war and division. Students’ experiences of contact with the people and cultural products (such as movies and music) of other nations (and perhaps living abroad) will affect their answers.

4. Q: *Consider the following statement: “Globalization and the resulting increase in competition harm people, as international companies play one government against another to get the best deal possible. Meanwhile, governments continually ask for greater concessions from their citizens, demanding that they work harder and longer for less pay.” Do you agree? Why or why not?*

A: This question gets students thinking about the interrelationships among consumers, workers, international companies, and governments. Consumers tend to win from a purchasing standpoint as companies’ cost structures tend to be lower and retail prices should fall along with increasing competition. However, these consumers are also employees in the economy. The power of corporations to get concessions from governments and workers affects wages. On the other hand, if citizens are not satisfied with their government’s stance on trade and investment issues, they can change the government at the ballot box. However, not every nation gives its citizens such powers.

This question may cause debate as students take the side of international companies or workers, and delve into the validity of such statements. This question might even be assigned as a debate. Students could be divided into groups, assigned a position, and given until the next class period to develop their arguments.

|  |  |
| --- | --- |
| **Practicing International Management Case** |  |

###### Ludia Plays Global

1. Q: *Some say globalization is homogenizing the attitudes and spending habits of young consumers worldwide. As one journalist puts it, “It may still be conventional wisdom to ‘think globally and act locally,’ but in the youth market, it is increasingly a case of one size fits all.” Do you agree or disagree? Why or why not?*

A: “Ludia has clearly benefited from the globalization of markets, enjoying strong growth and selling its games globally, essentially without changes to them”. Interestingly, game shows and movies are often designed for international audiences , so this may help explain why Ludia does not need to modify games for international audiences. Global consumer products are likely easier to market on a global basis with a global theme.

2. Q: *Do you think Ludia fits the definition of a born global firm? Explain your answer based on the case.*

 A: Globalization has given rise to the *born global firm* —a company that adopts a global

perspective and engages in international business from or near its inception. Born global firms tend to have an innovative culture and knowledge-based organizational capabilities.

Many born global firms rise to the status of international competitor in less than three years. Ludia seems to fulfill all of these criteria.

3. *Q: Advances in technology, including the Internet made it possible for Ludia to sell its product worldwide. Can you think of other technological innovations that have helped*

*companies to think globally?*

A: SKYPE, PayPal, Youtube, ATM’s, iPhones

4. Q: *Advances in technology often spur evolution in the entertainment industry. How might new products and services, such as the iPhone and YouTube, and Ludia’s games affect entertainment in years to come?*

A: There will be innovations to these technologies and future technologies, as one innovation leads to another. The entertainment industries will no doubt continue along with further miniaturization in medium and mobility in delivery.