

Chapter 12 Global change and challenges of the international environment

Case study 12.1 Volvo in South Korea

What were the obstacles facing Volvo?

The business was suffering losses; pay was based on longevity of service, and employees had little incentive and responsibility in the organization; little pride in the company's products.

What are the elements of the Swedish company's success in turning around Samsung's excavator operations?

- Introduction of a more Western-style management structure, but note that half the new management team were Koreans
- Range of initiatives basing pay on performance
- Recognition of trade unions
- Empowerment of employees
- Raising of product profile and price, to reflect technical performance.

Case study 12.2 Unilever in Tanzania

What were the difficulties posed by the economic and social environment in Tanzania and how were they overcome?

Distribution system dominated by wholesalers, which was unsuitable and inefficient in a very poor country with many thousands of retail outlets in 9,000 villages, many of which had difficult access. Unilever's new system relied on salesmen using bicycles, which could carry boxes containing very small packs of detergent, margarine, oil, and so on. The salesman would deliver to 20–30 shops with relative ease.

Under what circumstances would this system be transferable to other countries?

The conditions in Tanzania were those of a very poor country in which the population lives in small villages, often remote, and served by poor roads and other infrastructure. Bicycles were manoeuvrable, cheap to run and also ecologically friendly. Such a system could be of use in numerous poor countries with similar problems.

Case study 12.3 Business initiatives in cutting gas emissions

In what ways is the voluntary, proactive approach adopted by these companies preferable to a reactive approach?

An introductory discussion of climate change and the progress at international level on cutting emissions (such as the Kyoto Protocol) will provide perspective. Advantages of proactive approach by companies:

- Companies are in a position to take the initiative while governments take much longer to agree on measures to be implemented
- Companies cited in the case study have achieved energy savings by such initiatives

- Plans for emissions trading would provide financial incentive, encouraging firms to take voluntary action
- The proactive approach, anticipating future regulations, will have systems in place, therefore gaining competitive advantage over firms waiting to be forced to change their ways
- The proactive approach is illustrative of good corporate citizenship, which is important in consumer perceptions of the company.

Case study 12.4 Two sides of the internet in the Philippines

What are the attractions of the Philippines as a location for internet companies?

English-speaking population; American-style education system; abundance of workers with IT skills; low wages.

How does their presence help the technology gap between rich and poor countries?

Foreign companies which have established IT services in the Philippines offer prospects of well-paid jobs (by Philippine standards), both in the more low-skilled IT services and in the more highly skilled areas such as programming. Thus, students have ample motivation to gain IT skills, and educational establishments have abundant eager applicants for courses. However, the Philippines remains a very poor country, as evidenced by the facts that most of the software used is pirated, hacking is common practice, and the use of the internet is prohibitively costly for most people. It is arguable that the overseas companies that have located in the country could more accurately be said to have exploited the technology gap, rather than helped to bridge it.

Assignment 1

(a) Economic development in the poorest countries depends on a number of factors: political instability and, in extreme cases, armed conflicts, have drained public finances and made day-to-day economic activity precarious in a number of countries. Therefore, achieving peace, political stability and sound governance is a primary condition.

In countries with high levels of corruption, reducing the channels of corruption which divert funds away from legitimate projects such as education and health will restore public faith in governments. Such reforms will serve to attract foreign investors.

(b) Current problems which present obstacles to development:

1. Debt burden of the heavily indebted poor countries (HIPC) – a discussion of the role of the IMF and World Bank is appropriate. Debt relief has had only limited success to date, and internal restructuring in the indebted countries is seen as necessary for long-term recovery
2. Trade – the poorest countries are mainly agricultural, and they export mainly primary commodities. However, world markets in commodities are volatile, and there are protectionist barriers in richer countries. Poor countries therefore seek an opening of markets to their produce.

Assignment 2

The traditional view of the role of the firm is that the business of business is business. By focusing on the bottom line, the firm was looking after the interests of shareholders and also society, as jobs (both maintaining existing ones and creating new ones) depended on financial success. On this view of the firm, ethical issues were outside its sphere of competence, to be dealt with by governments, churches and other organizations in society.

This narrow view of the firm has given way to a broader view of the firm in the community, in recognition of the reality that organizations unavoidably interact with the environment, and therefore bear responsibility for their activities in society generally. This broader view, encompassing social responsibility, is related to the stakeholder theory of the company, which should be explained. Stakeholders represent a range of interests, including employees, customers and the community. Social responsibility is usually divided into three spheres: human rights, workers' rights and the ecological environment. These issues have been highlighted particularly in the context of global companies operating in developing countries. Of course, the socially responsible company does still need to make profits, but both shareholders and other stakeholders now expect companies, in addition, to be good corporate citizens.

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