

Preface

This book provides a lively, informative and stimulating introduction to international business for business and management students. Based on nearly 30 years of teaching experience, it is designed to offer a substantial, but readable, academic foundation as well as to encourage readers to adopt a critical perspective.

International business now touches the lives of everyone across the globe, in ways not always easy to fathom. Moreover, events and trends, which once unfolded gradually, are now racing ahead with breathtaking speed, testing even experienced managers. Understanding the ‘how’ and ‘why’ of current trends is becoming ever more urgent for tomorrow’s managers and decision-makers, as global and local impacts become increasingly intertwined. Bearing in mind these needs, this book has three major aims:

- To unlock the processes and players that drive international business, together with their impacts on societies and their physical environments.
- To guide the student through the strategy formulation and decision-making processes which take place in the international arena in a wide variety of international business contexts.
- To encourage a critical approach to the issues and events that arise in business contexts across the globe.

This text is designed for business studies and management degree courses at undergraduate level, as well as MBA and masters degree courses. The choices of degree courses and curriculum options for undergraduate and postgraduate students have never been wider, from general management courses to those with a specialist focus, such as marketing or HRM. International business has become a vital component of all these courses, combining a broad geographic coverage with a range of functional and disciplinary perspectives. This book’s integrative approach spanning core disciplines makes a valuable contribution to the curriculum, complementing specialist modules. It is engagingly written and includes clear explanations, making it readily accessible to a range of students, including those for whom English is a second language.

Approach

International business encompasses all types of business organization, all parts of the globe and all aspects of business activity, yet international busi-

ness textbooks to date have tended to limit their coverage in one or more ways. Most are economics and finance oriented, taking only passing account of societal, ethical and environmental implications. Most focus on the US, for its leadership role in global business and enterprise values and culture. In contrast, this book takes a broader approach, in terms of perspectives and geographical focus:

- ✓ **Multidisciplinary approach:** Economic concepts and analysis are presented alongside political, social, ethical and legal analysis, to give a richer picture, as well as a more solid foundation for strategy formulation. Concepts and theories are presented and discussed in terms of both business and society implications. Throughout the text, attention is drawn to the tension between economic, social and ethical considerations in international business operations.
- ✓ **Truly international outlook:** US, European and Japanese firms are placed in the broad international context, providing the reader with a balanced view of current trends towards multiple centres of business activity. The rise of developing and transition economies is highlighted as a trend which is shaping the competitive environment in virtually all industries. The case studies and vignettes reflect these changing centres of gravity, featuring key emerging economies such as China and India, and also a wide range of other locations in Asia, Africa and Latin America. From Azersun, an agricultural firm in Azerbaijan, to Weg Electric in Brazil, national and global influences are clearly analysed in a vast array of differing locations.
- ✓ **Diversity of business perspectives:** In today's world, the competitive landscape comprises a range of players, from small private enterprises to large multinationals and state-owned organizations. The numerous case studies feature examples of all these types of organization and, importantly, how they interact in practice.
- ✓ **Diversity of social and cultural perspectives:** The growing variety of economic players mirrors a diversity of social and cultural perspectives in today's business world, which is another of the book's themes. Ownership structures, management practices and employee relations are all affected by national environments and corporate history. Understanding these differing ways of doing business is essential for the international manager.
- ✓ **Focus on global issues:** Global issues are highlighted throughout the book, with systematic analysis from a business perspective in Part 5. The ecological environment, human well-being and development issues are now seen as being central to strategy and operations. This book provides a coherent presentation of corporate social responsibility (CSR), including underpinning theories and strategic implications. CSR approaches in a range of developing countries and diverse cultural environments are provided, to meet the growing needs of international managers for CSR commitment, followed up with effective policies and practices.

Content

This text balances environmental analysis, strategy and management, inviting critical reflection on their interrelationships. It is divided into five parts, each

with a broad focus designed to fit into a systematic overall plan. As the map of the book shows, each part forms a logical foundation for the one which follows. The final part forms the conclusion, examining global issues in the business context.

An overview of the content of each chapter is given below.



Part 1 The international dimension and the organization

The opening chapters introduce the internal and external aspects of the business and its international environment, together with an overview of international trends:

- Chapter 1: The business enterprise in the international environment**
 This introductory chapter presents the key features of the business organization, including ownership, entrepreneurial aspects and decision-making structures. The business is also placed in its international context, giving an overview of the international business environment and identifying key players.

- **Chapter 2: Perspectives on globalization**

Globalization and internationalization are considered as broad trends in international business. Key theories and patterns of foreign expansion of markets and production are explained. The chapter invites a critical perspective on globalization, together with an examination of its impacts on societies across the globe.

Part 2 The environment of IB

These chapters look in turn at three key dimensions of the international environment:

- **Chapter 3: The economic environment**

This chapter explains the key concepts of macroeconomics and illustrates them with a range of examples. National economic systems are identified and contrasted, emphasizing the ways in which businesses function in these differing national contexts. Patterns of economic development are explored, with their implications for international business.

- **Chapter 4: The cultural environment**

Cultural dimensions, including theories of culture, are used to profile national cultures in the context of business operations and markets. Organizational culture, particularly in the context of internationalization, is examined. This chapter casts light on how culture change is taking place across the globe, as economic development and urbanization are leading to changes in societies and lifestyles.

- **Chapter 5: The political and legal environment**

The contours of political systems and their claims to legitimacy are examined, including varying types of democratic transition, and their impacts on business. Issues of political and legal risk are examined, as these factors are taking on greater relevance for international businesses as they expand more widely.

Part 3 Competing in the global marketplace

In these chapters, we turn to strategy formation and implementation in the international competitive environment, focusing on theory and practice:

- **Chapter 6: International trade and regional integration**

Basic concepts and trade theories are examined, highlighting the most recent trends in international trade and their impact on international business.

- **Chapter 7: Strategy and organizations**

This chapter looks at the firm in the competitive environment, examining how it designs strategy to gain competitive advantage, and what organizational structures will help (or hinder) its successful internationalization.

- **Chapter 8: Marketing**

The focus here is specifically on the ways in which marketing contributes to the firm's achievement of its goals internationally. Although a global marketing strategy might be thought essential for the global business, national differences have challenged marketing strategists, enlivening the competition between local and global products.

Part 4 Managing in the global environment

These chapters each focus on a specific specialist business function, highlighting the international dimension:

- **Chapter 9: Human resource management**

Focusing on international human resource management (IHRM), this chapter examines how HRM planners accommodate local workplace values and practices as organizations expand into a range of locations. Coordinating diverse practices and maintaining a focus on strategic goals are challenges for HRM internationally, especially in the context of a growing array of working and organizational relationships.

- **Chapter 10: Supply chains**

The importance of inter-organizational networks in international operations is highlighted. Internationalization of production has transformed manufacturing, from global sourcing to assembly and distribution. As much manufacturing has shifted to low-cost environments, quality management and transport have become key factors in the new competitive landscape.

- **Chapter 11: Finance and accounting**

The text now turns to the function of finance and accounting in strategy and practice. Global financial markets are clearly explained, highlighting implications for businesses in their corporate financing and operations. Accounting standards and practices are discussed in the context of internationalization and gradual harmonization of national practices.

- **Chapter 12: Innovation and strategy**

Innovation is universally recognized as key to competitive strategy, but how can managers 'make it happen'? The chapter looks at strategies and policies which foster innovation in the international context, taking into account national differences in innovation systems and their legal implications.

Part 5 Global issues and IB

Finally, the major challenges which businesses face in the twenty-first century are highlighted. The three chapters bring together themes of business impacts in societies and environments from earlier chapters, providing an overview and synthesis, as well as a critical perspective:

- **Chapter 13: Ecological challenges for business and society**

These include pollution, climate change and environmental degradation, all of which are impacting on strategy and policies for the future. For managers, therefore, environmental assessment and changes in management practices are becoming primary considerations.

- **Chapter 14: Corporate social responsibility**

CSR considerations now pervade international business activities, in both production and markets. The main theories are set out and evaluated in the context of the changing views of the role of companies in societies. Corporate governance and differing national cultures are taken into consideration.

- **Chapter 15: Global governance**

This chapter brings together the themes of globalization and rule-making institutions which are increasingly shaping the markets in which international firms operate. Firms have long since become accustomed to dealing with governments and regulators, but in the new environment, networks, relationships and co-operation among governmental and corporate players are redefining the regulatory frameworks within which businesses operate. These changes create both opportunities and challenges for international businesses in a changing competitive environment.

Features

This book is packed with carefully thought-out features to aid understanding, provide real-life applications and stimulate thought and discussion. In particular, it includes an outstanding set of case studies and vignettes and two useful appendices – an atlas section complete with full colour maps, and an extensive list of country data.

It is easy to navigate, with each part of the book clearly distinguishable by a characteristic colour. There is a range of handy quick reference tools, for example a list of abbreviations at the start of the book, a glossary at the end, and appendices showing maps and country data.

An outline of each of the book's features is given below, and the guided tour of the book provides an at-a-glance summary.

At the start of each chapter

- **Chapter outline and learning objectives:** On the opening page of each chapter you will find an outline of the main sections, along with learning objectives, setting out what the student can expect to gain from the chapter in terms of knowledge and applications.
- **Introduction:** Each chapter introduction begins with a short vignette, highlighting a key theme using a topical example so that the material in the chapter is instantly contextualized and its relationship with real-world events firmly established. The vignette is then followed by an overview of the material to be covered in the ensuing chapter.

Throughout each chapter

- **On-page glossary:** For quick reference, key concepts and terms are defined in the margins at the points in the text where they are introduced. (They are also listed in the Glossary at the end of the book.)
- **Web checks:** References to relevant websites appear in the margins, providing an entry point to the range of online resources available. The web checks also offer guidance on navigating the websites they refer to.
- **Pause to reflect:** Throughout the chapter, readers are invited to look critically at the material and apply concepts and principles in differing contexts by answering questions posed by the pause to reflect feature.
- **Figures and tables:** The figures and tables serve to aid learning and present data trends. Figures are generally presented where topics are introduced, in the belief that a visual diagram showing links among a number of

elements is a useful learning aid. A full list of these features is provided at the beginning of the book.

- **To recap...:** Each main section finishes with a box highlighting its main points. These crystallize students' understanding of the key points and should provide a handy reference point.

Case studies

Reflecting the international outlook of the book, these are drawn from an exceptionally diverse range of geographical locations, spanning all continents and all stages of development. They also cover a broad spectrum of company types.

Each case study is followed up by a set of questions to check learning, prompt discussion and encourage students to apply the concepts they have learned to real-world situations, encouraging an active, problem-based approach to learning. The case studies have also been designed to encourage students to see the links between the different topic areas covered in the book. The text contains three types of case study:

- **Full case studies (CS):** Each chapter contains two full case studies – one within the main part of the chapter and the other at the end. They illustrate and explore specific chapter themes as well as interactions with other relevant issues.
- **Strategic crossroads (SX):** These are shorter vignettes with a narrower focus than the longer cases.
- **Country focus (CF):** There are two country focus features per chapter, each presenting a snapshot of key areas of the business environment in a specific country and also offering a glimpse of relevant companies, both domestic and foreign, showing the challenges they face and how they are meeting them. Each country focus is accompanied by a map of the relevant country, with key centres of population and other features highlighted.

A full guide to all the case studies is provided. This consists of a series of grids providing an overview of the main areas covered by each case study. For case studies (CS) and strategic crossroads (SX) features, the headings reflect strategy, business functions and CSR. For country focus (CF) features, the headings reflect environmental dimensions and development issues.

At the end of each chapter

- **Conclusions:** Each chapter's concluding section presents the main threads of the discussion succinctly, showing how the chapter's main points relate to each other and to the overall themes. Each conclusion highlights both strategic and environmental dimensions for international business.
- **Review questions:** These are set out in two sections before the closing case study of the chapter. Part A contains questions which test students' grasp of knowledge and concepts. Part B questions invite more critical thinking and assessment of the material in the chapter. The Part B questions can be used for group discussion or individual study.
- **Further research:** In addition to references, suggestions for further reading are given at the end of chapters. These are additional avenues to follow,

offering more in-depth elaboration of the material, or presenting different critical perspectives. These recommendations provide a window on some of the key contributions to scholarship in this field, including those from Michael Porter, Paul Krugman and Joseph Stiglitz.

At the end of the book

- **Appendices:** The book contains two appendices providing students with valuable reference points and context for geographical and economic information:
 - **Appendix 1** is an atlas section (including capital cities)
 - **Appendix 2** provides detailed geographical, social and economic data for countries throughout the world in tabular format, for convenient, at-a-glance reference.
- **Glossary:** The glossary contains all the key concepts and terms featured in the margins.
- **References:** Every chapter contains many references to source material. References in the text are listed at the end of the book. References in case studies and country focus boxes are listed at the end of the feature box itself. Many references cite important scholarship in the area of international business, both theory and empirical studies. Theories are necessarily presented only briefly in the text, and following up these sources with further reading will greatly enhance understanding of their points of view.
- **Index:** The index is presented in three sections: the index of business organizations, the index of people and the subject index.

Finally, it is appropriate to note here that the book contains an abundance of cross-references, to both content on specific topics and relevant case study and country focus boxes. They are inserted to highlight links which offer further illumination to readers, and also to show the substantive links among topics in different chapters.

Companion website

International Business: Challenges in a changing world is accompanied by extensive online materials, accessible to lecturers and students at www.palgrave.com/business/morrisonib.

This companion website is packed with valuable features to aid teaching and learning, including **free access to selected articles from the *Journal of International Business Studies***.

***Journal for International Business Studies* zone**

Adopters of *International Business: Challenges in a changing world* will have free access to a unique journal zone, offering:

- An introductory section for students with guidance on how to get the most out of journal articles
- Free access to a selection of articles from the *Journal of International Business Studies*
- Author-written supporting commentary explaining the background to each article, defining key terms and making links with relevant sections of the textbook
- Critical thinking questions and guideline answers.

In addition to the unique journals zone, the following password-protected online materials have been carefully designed to support lecturers in delivering their IB course:

- **PowerPoint lecture slides** for each chapter including relevant figures and tables. The slides can be customized by lecturers to suit module needs
- **Lecturer manual** including:
 - Suggested answers and discussion guidelines for questions in the book
 - Discussion guidelines for web-based assignments and synthesis/reflection questions provided on the website (see further details below)
 - Sample course outline giving suggested course structure for a range of course lengths
 - Sample end-of-module exam paper
- **Testbank** including multiple choice questions and short answer questions for each chapter, to use as a resource for creating end-of-module assessments
- **VLE-compatible cartridge** of the above materials, enabling them to be loaded direct into BlackBoard, WebCT or Moodle learning platforms
- **Regular updates section** giving details of recent events and their impact on the case studies included in the book.

Students will be able to check and expand their learning using the following features:

- **Multiple choice questions** for each chapter to self-test and check understanding
- **Web-based assignments** for each chapter to develop research skills and provide further examples of how theory applies to practice
- **Synthesis and reflection questions** for each part of the book to encourage consideration of the interrelationship between different areas and promote critical thinking
- **Expanded searchable glossary** of key terms for quick reference
- **Annotated web links and RSS feeds** to relevant sites and articles
- **Country data table** in electronic format, which can be manipulated and reordered by different categories.

This book's truly international and contemporary approach and coverage, together with its outstanding pedagogical features and clear explanations, offer a fresh and engaging IB course which we hope will offer an enjoyable and enlightening path through the subject for lecturers and students alike.

Guided tour of the book

chapter 1 THE BUSINESS ENTERPRISE IN THE INTERNATIONAL ENVIRONMENT

chapter outline

- Introduction
- International business in a changing environment
- What distinguishes international business?
- Dimensions of the international environment
- Entrepreneurship goes global
- Cross-border enterprises: their internal environment
- Rules inside the company
- The multinational enterprise (MNE)
- Functions within the international enterprise
- Corporate governance
- The organizational environment
- Alliances and joint ventures
- Networks
- Key players in the international business environment
- National governments
- Regional institutions
- International organizations
- Conclusion

learning objectives

- To highlight the ways in which the international dimension in business activities is distinctive from national and local enterprises.
- To appreciate the role of the entrepreneur and entrepreneurship in the international environment.
- To gain an overview of the ways in which enterprise organize and adapt when they expand internationally.
- To gain an understanding of the key players in the international environment with which businesses interact.

Chapter outline listing the main areas covered

Learning objectives outlining what students will gain from the chapter

Mini-vignette to provide real-world context by highlighting a key theme

Introduction giving an overview of the material in the chapter

Introduction

In cities around the world, companies such as McDonald's and Starbucks have become familiar sights, having successfully expanded from their American roots. They are finding, however, that countries vary considerably in their receptiveness, and that new competitors, many with local backgrounds, are crowding onto the scene. Café Coffee Day, an Indian chain founded in 1996, has enjoyed rapid expansion in India, where coffee shops are growing in popularity among the under-25s, who make up half of India's billion-plus population. Exemplifying the confidence of firms in today's emerging economies, Café Coffee Day is now expanding into other Asian countries, Europe and the Middle East. Meanwhile, Starbucks, having been in China since 1999, is keen to enter India, but has run into objections from the Indian government, as well as from Asian business partners guiding its proposed Indian venture. These companies represent two contrasting themes which are central to this book. First, firms from emerging markets are becoming more international in their horizons; and, secondly, differences in national business environments are still influential forces in international business.

Whatever its background, the business that seeks to expand internationally faces new challenges as well as new opportunities. Its internal organization, culture and strategy are likely to evolve much to its home environment, but as it expands internationally, it is also influenced by the foreign environments in which it operates as well as developments in the broader international environment. Seizing business opportunities abroad involves taking on new risks. This chapter aims to provide insight into the organizational aspects of international business activities in the context of these diverse environmental influences.

The chapter begins with an introduction to the international business in its environment. The first section highlights the distinguishing features of the international business and outlines the key dimensions of the international environment. We then look at how businesses grow from small beginnings to become large organizations spanning continents. Businesses are typically started by an enthusiastic founder, whose entrepreneurial skills contribute to its success. Entrepreneurship is therefore a vital ingredient. The following section examines the ways in which the firm develops as an organization, with greater complexity and attention to specialized functions. Internal roles and governance acquire important legal dimensions, which are outlined in the following section.

links in networks of many types, from suppliers of components to R&D. A company which sells products in consumer markets may have an agreement with an allied company to offer services to consumers, such as finance or after-sales services, which are complementary to its business. For example, co-operative agreements between companies in R&D, whereby they pool resources and skills, can facilitate greater progress than separate R&D departments working on their own (Nanda and Doytner, 2004). Medical research and research in emissions reduction are two examples where progress has been greater as a result of combined forces. While we tend to think of competition between organizations as an 'either-or' binary in all respects, the newer view of alliances to achieve corporate goals represents a modification on the traditional concept of inter-firm rivalry (Osborn and Hagedoorn, 1997). It is true that some types of alliance may have the effect of being anti-competitive, but alliances referred to here offer benefits to both organizations and consumers. For the individual companies involved, the prospect of getting their new products into the market more quickly than would have been possible with a stand-alone R&D unit justifies the 'co-operative to compete' approach (Jorde and Teece, 1989).

A **joint venture** is a type of strategic alliance consisting of a formal arrangement between two or more organizations to set up a new entity in which each of the partners has an ownership stake. In Figure 1.5, Companies A and C form Company D. The joint venture is likely to be registered in the country where the new venture is to take place. Typically, one of the partners is local and one is a foreign investor. Starbucks' proposed entry into the Indian market, highlighted in the opening vignette, involved two Asian partners, one an experienced Indian retailer and the other the operator of Starbucks franchises in Indonesia. The partners may be companies, government bodies, international agencies or individuals. The joint venture could also be between two companies in different countries for a project, such as an infrastructure project, in a third country. The joint venture has proved to be a popular vehicle for many types of international business, from large infrastructure projects to retailing. Its main attraction is that it facilitates the blending of a host partner's local knowledge with the capital and expertise of an outside investor. It has been successfully used in many developing countries where there is a need to attract outside capital. The success of the joint venture depends in large part on whether the partners are able to forge a smooth working relationship, avoiding the tensions which are likely to arise in a joint enterprise between members of different organizations with contrasting corporate cultures. Joint ventures have been the norm for foreign companies investing in China, as shown in CS1.2.

Networks

Networks may be both intra-firm and between companies (the latter is shown in Figure 1.10). Again, the traditional picture of the business landscape as inhabited by autonomous companies, each acting independently, has been superseded by a more complex picture, in which organizational boundaries are blurred. The network may comprise individuals or teams of staff, working in different locations. For example, a design team for a new

On-page glossary defining key concepts and terms

Web check directing readers to relevant online materials

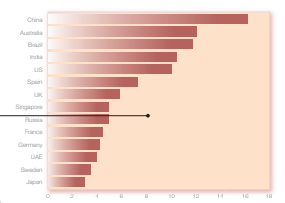
Graphs to illustrate key trends

The business enterprise in the international environment

population, are shown in Figure 1.3. Among the highest are fast-growing emerging economies as well as developed economies. By contrast, many developed economies, such as Japan, have few entrepreneurs. In Japan, the notion of starting your own business is not seen as an attractive option to working in a secure, salaried job, probably for a large organization. Governments bear much of the responsibility for encouraging (or discouraging) both start-up businesses and entrepreneurial activity among existing businesses. Even when the Japanese government tried to entice people to form new businesses with the one-year start-up fee, the uptake was disappointingly small. However, whereas individuals on their own may not be eager to become entrepreneurs, they may well be motivated towards entrepreneurial goals collectively, as part of an organization. Even large, long-established companies have successfully maintained high levels of entrepreneurship, as CFI.1 on Japan shows. Many underwent a radical restructuring to eliminate managerial layers and make the division heads more externally focused on seeking new opportunities (Ghoshal and Bartlett, 1995).

Start-up businesses fall into the broad category of small and medium-sized enterprises (SMEs). These businesses may be defined according to differing criteria. Number of employees is a frequently used criterion, shown below:

- Micro: 0-9 employees
- Small: 10-49 employees
- Medium: 50-249 employees
- Large: 250 or more employees



Sales turnover is another possible criterion, classifying the SME as having a maximum sales turnover of £24 million (European Commission 2000, in Hutchinson et al., 2005). SMEs are important in numerous sectors. Advances in communication technology and transport make it possible for even small manufacturing firms to export their products globally. Even in the retail

To grow, the company does not see a major shift in its business model, which is dominated by equipment sales, to mobile handset joint ventures with Sony can fit into this broader strategic perspective of providing more of an end-to-end solution for customers. The company seemed to have weathered the crisis, largely due to strong demand for second-generation GSM networks in Africa, the Middle East and Latin America. The gradual roll-out of 3G networks has also boosted sales. However, shareholders were jaded by a profit warning late in 2007, suggesting that order books were not as healthy as they had thought. Investors thought it had learned the lesson that no business can afford to become complacent in the changing global environment. The CEO has since underlined renewed pressure to show the leadership skills which he displayed to turn the company around following the bleak days of 2007.

Questions

- What were the causes of the crisis at Ericsson?
- How has the company managed to turn the business around, and what are the long-term goals?

WEB CHECK

Visit www.ericsson.com to read more about the company's recovery.

Pause to reflect inviting readers to look critically at the material

To recap... highlighting the main points in each section

Who controls the company?

How are the following types of company likely to differ in terms of culture and strategy? (You may wish to refer back to the development of international strategy)

- The profit company
- The state-owned company
- The public company
- The public company with state shareholders, one being more than the other

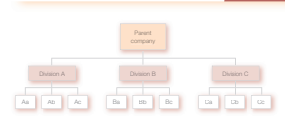
PAUSE TO REFLECT

The multinational enterprise (MNE)

Companies which do business in multiple geographical locations can be referred to in several different ways. 'Multinational corporation' (MNC) and 'transnational corporation' (TNC) are often used to refer to an organization which does business across national borders. TNC is the preferred term of the UN and its agencies. On the other hand, much international business research, such as that of John Dunning, adopts the term **multinational enterprise** (MNE). MNE is adopted for the reason that the notion of 'enterprise' seems preferable to 'corporation' in capturing the multiplicity of relations which make up the modern international business. The MNE can be defined as 'an organizational entity or system of cross-border relational interactions' (Dunning, 1993b: 38). This definition reflects the view that, although based on the corporate form, it is more helpful to view the international business as a set of relations between organizations than as a single organization (Ghoshal and Bartlett, 1990). The MNE is thus a coordinator of dispersed activities and relations.

As an MNE grows in size and geographical reach, it may acquire subsidiaries abroad, often by buying existing businesses. Typically, the parent company is located in the home country, with subsidiaries located in foreign locations. The MNE may eventually develop a multi-tiered structure, whereby a division is itself a parent company owning a number of subsidiaries (see Figure 1.7). The parent company as a legal entity remains the basic

The business enterprise in the international environment



unit, but the large MNE may own and control hundreds of other companies through complex webs of ownership. The parent company and each of the entities which form the MNE are separate companies, and, indeed, may be registered in different countries. Some MNEs are monolithic entities, closely controlling the activities of subsidiaries worldwide, while some are more decentralized, allowing local managers considerable autonomy (discussed in detail in Chapter 7).

When it expands abroad, the company may set up an international division, as described in CS1.1 on PepsiCo. PepsiCo's brands are produced internationally by separate companies under licence in the various locations. It does not own these companies, but its relations with them are essential to its international operations. Its products for the North American market, by contrast, are manufactured by its own subsidiaries in America. International expansion involves greater complexity in the running of the business, including the different functions which must be co-ordinated among different locations. These are introduced in the next section.

Functions within the international enterprise

Wherever it is located, the business enterprise is made up of a number of interrelated activities, known as business 'functions', which together enable it to attain its goals. Chief among these are operations, accounting and finance, marketing and human resource management (HRM). For a company which operates entirely within the borders of a single country, its national environment forms the cultural backdrop and provides the regulatory frameworks within which it operates. In the international environment, these functions may present rather different – and more complex – challenges than they would for a business whose activities are wholly within its home country. Figure 1.8 represents these functions in a typical MNE. The MNE may centralize some functions, such as finance, HRM and marketing, but the head office is likely to co-ordinate with functions in departments in subsidiaries, to handle day-to-day activities. As Figure 1.8 indicates, operations and R&D are functions which are increasingly centred in the local environment of subsidiaries. Each of these functions is highlighted in a chapter in Part 4 of this book. In this introductory chapter, therefore, we outline the cross-border dimensions of each function which concern business managers operating in an international environment.

Operations is the broad category which refers to the whole of the process by which the firm makes and delivers goods or services to consumers. Often

THE INTERNATIONAL DIMENSION AND THE ORGANIZATION

pendent with each other and with corporate players. In the sphere of culture, there is cultural convergence as industrialization and modern urban lifestyles have spread to many countries, but cultural foundations of divergent societies persist. According to this more tentative view, gradual changes in nation-states and in national cultures indicate that globalization is more akin to a series of transformations, rather than a single, all-encompassing system.

Several defining characteristics of globalization emerge from the debate. Four are highlighted here:

- Growth in capitalist market economies worldwide, reducing barriers to trade and investment.
- Growing interconnectedness between firms, governments and individuals worldwide.
- Advances in information and communications technology and transport.
- Qualitative changes in organizations and societies as a consequence of new global interactions.

Bringing these elements together, we can define globalization as processes of increasing and deepening interactions between individuals and organizations across the globe, facilitated by advancing communications technology and the opening of markets to trade and investment. This definition reflects the primary of extended interactions between countries, institutions, and individuals and also highlights the importance of technological innovation in transforming communications. It notes deepening interactions, implying that qualitative changes are taking place, but it does not go so far as to suggest convergence among societies in terms of economic and cultural spheres.

Aspect	Businesses	Societies	Governments
Markets	Presenting opportunities in all markets	Access to products from across the globe	Increasing openness to imports, encouraging domestic exporters
Production	Worldwide sourcing for raw materials and technology from TNCs	Benefits in employment and technology from TNCs	Encouraging to attract FDI
IT	Enter firms and enter firms IT networks	Integration into global communications networks	Investment in infrastructure, education, R&D
Finance	Seeking sources of regional investment	Openness to outside capital, integration into global capital markets	Interdependence with regional and global financial centres
Qualitative change	Internationalized corporate structure and culture	Culture change associated with industrialization and urbanization	Co-operation with other governments in dealing with global issues

Strategic crossroads (SX) providing a focused case study

Diagrams and tables to summarise key information and concepts

The business enterprise in the international environment chapter 15

Businesses which are mainly national in scope tend to have mainly domestic shareholders. As companies become international, they attract investors from other countries. Shareholders in large public companies are typically other companies and institutional investors such as pension funds. Shareholder profile may change over the years, as the example of the UK illustrates. In 1963, 54% of UK shares were in the hands of individuals, but this percentage declined between the 1960s and the 1990s, as domestic pension funds increased their investments in equities. As Figure 15.6 shows, individuals and pension funds owned 48% of the market in 1994, but by 2004, both these groups had reduced their holdings, partly because they decided to diversify internationally. By the same token, holdings of overseas investors nearly doubled between 1994 and 2004. Managers of UK companies, therefore, are now looking at a wider range of shareholders, who are likely to have divergent ideas on company strategy.

A state or governmental authority may own whole companies or a block of shares. If it takes a 50% or more, it will have effective control, but a lower stake will still give it considerable influence. An example is the block of Volkswagen shares owned by Lower Saxony, which is discussed in CS1.1. When a government sells off a stake in a state-owned company, it is said to be 'privatized', as private investors are invited to subscribe. The company then created as a public company. Typically, the government offers a portion of the shares in an IPO, but retains a stable stake under state control. This has been the pattern in the French government's *renouveau* of utilities companies. For example, 30% of Gaz de France was offered to the public (see CS2.1).

TO RECAP:
Public and private companies: The private company's shares are typically owned by a small number of owners and cannot be traded on a stock exchange. The public company's shares are traded on one or more stock exchanges, although the proportion of shares floating in the way varies in many public companies, from a case of established shareholders.

STRATEGIC CROSSROADS

How did the bright prospects of the start of the new millennium go wrong? A major setback was caused by shrinking investment by telecom operators. Telecom operators, who had incurred debts by investing heavily in third-generation (3G) licences, were compelled to rein in capital spending. Competitive pressure came from Chinese manufacturers who were able to undercut the Swedish company on price and make investments in European markets. Ericsson suffered severe losses between 2001 and 2003, bringing it to the brink of disaster and forcing it to renege on its obligations to shareholders. In 2003, it was voted out of office by its shareholders, who elected a new board of directors. The new board, headed by the former CEO, decided to restructure the company. It sold off non-core assets, reduced the size of the company, and focused on its core business. The company's share price fell from a peak of 100 SEK in March 2000 to just 35 SEK in September 2003.

The company has traditionally relied on equipment sales as its main source of revenue. It embarked on a cost-cutting programme, shifting manufacturing of its products to China, and focusing on its core business. It also sought to diversify into other areas, such as mobile phone services, but this strategy failed. The company's share price fell from a peak of 100 SEK in March 2000 to just 35 SEK in September 2003.

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important for MNEs to take into account. It is arguable that, although it is rather vague to speak of a whole society as being a stakeholder, it is nonetheless appropriate. The company's interactions with communities in which it operates are tangible impacts of the company's activities, for example the presence of a factory. Residents close to the factory are certainly affected by it, but may well have no formal dialogue with the company. If the company takes a stakeholder approach to its role, it sees community relations as essential to achieving corporate goals. Stakeholder management is now seen in the context of the international company's role in the many societies in which it operates. Stakeholder management is based on the philosophy of *stakeholder responsibility* (SR), which views the company as having not just an economic role and responsibilities, but also social, legal and ethical responsibilities. (These issues are discussed in detail in Chapter 14.) Many of the companies featured in our case studies, such as Ericsson, provide CSR reports on the investor relations pages of their websites, indicating the growing prominence of social dimensions in the broader corporate governance picture. Co-operative relations with business partners are another type of stakeholder relationship, as the next section indicates.

COUNTRY FOCUS 1.1 - JAPAN
Electronics industry spearheads Japanese economic recovery

Japan is held up as a model of successful industrial development. As the first Asian country to industrialize, its example has been particularly relevant for other Asian countries seeking similar economic success. In the aftermath of the Second World War, Japanese companies, with government support and guidance, set about rapid expansion which brought success, particularly in Western markets. Its consumer electronics industries and car manufacturers led the way. Japanese companies became world leaders in television and audio products, famous for their quality and reliability. These achievements were a job of employment for many Japanese, and guaranteed full-time employment a year for life. Japan's new affluent middle class, secure in their jobs, fuelled consumer

Country focus (CF) offering a snapshot of a specific country

Conclusion showing how the main points in the chapter interrelate

Review questions designed to test students' grasp of knowledge and invite critical thinking

THE INTERNATIONAL DIMENSION AND THE ORGANIZATION

Also instrumental in nurturing awareness of global issues with local impact have been many **non-governmental organizations (NGOs)**, which have been set up by a wide variety of organizations and individuals. Many are civil society organizations run by private individuals. Some exist to provide technical services, while others are geared towards publicizing and campaigning on particular global issues. Most NGOs perceive their role as influencing governments and stepping in to fill gaps in government welfare activities. Many do fulfil humanitarian work, which is supported by states. Although most are independent of governments, however, some are sponsored by governments as tools of government policy, leading to some confusion and ambiguity in their perceived status. NGOs have been active in promoting change in particular spheres, such as the environment and labour standards, increasingly working with businesses and governmental organizations.

TO RECAP:
International structures: International organizations may be formalized institutions or operate between governments of convergence, which are able to be set up by individuals. Many are voluntary associations and organizations and are not formalized institutions. Many are voluntary associations, which are able to be set up by individuals. Many are voluntary associations, which are able to be set up by individuals.

Conclusions

- International business entails greater complexity in both organization and strategy than the national or local firm.
- A diversity of national environments presents a host of challenges, extending across economic, political, legal and cultural dimensions. Business which has an entrepreneurial and internationalist in this thinking from the outset are often better placed to take advantage of new opportunities, particularly in the internet and high-tech sectors, than established companies dominated by their home country culture. SMEs increasingly play vital roles in international business.
- There is no single model or optimal size of the international firm. The MNE takes a range of positions, organizationally and ownership structure. While it is generally the case that the MNE is a public company with international shareholders, many MNEs remain home country dominated, with government shareholders, including governments. The company's shareholder profile and the size of domestic sales affect its strategy and culture. The company's corporate governance systems are linked to its ownership by the distribution of new major decisions are taken. These systems vary in their transparency and in the pressure for greater transparency, but, in general, pressure for greater transparency is increasing as companies become more internationalized. Similarly, companies now take greater account of stakeholder interests, extending their perspective to social and environmental issues, both globally and at national environments.
- MNEs increasingly interact with other players in the international environment. Co-operative alliances and networks are facilitated by advances in communications technology and open up new opportunities, especially in emerging markets. For many companies, the international joint venture offers an opportunity to benefit from the know-how of a local partner. National governments play a crucial role, directly and indirectly, for domestic and foreign businesses wishing to expand internationally. Many governments have led a range of international frameworks which impact on international business. MNEs are also involved in a range of relations with government and civil society players. Managing stakeholder relations, both national and international, is key to international business success.

Review questions

Part A: Grasping the basic concepts and knowledge

- In what ways is the international business enterprise distinctive from a local or national business? What new risks are posed for the business which goes international?
- Why are entrepreneurs important in a national economy? What are their roles in international business?
- Why would a business decide to form a registered company? What are the principal characteristics of the public company which distinguishes it from the private company?
- What is the MNE structure well suited for international expansion?

The business enterprise in the international environment chapter 15

Looking at the key functions in the international business organization, which are likely to be concentrated in the firm's head office, and which is being subcontracted?

16. How has the MNC evolved as a player in the international environment?

Part B: Critical thinking and discussion

- Entrepreneurs are generally acknowledged to be innovators and wealth creators. However, as Figure 15.6 shows, there are significant differences between countries in the proportion of people involved in start-ups. What are the causes of these differences, and what can government authorities do to encourage more entrepreneurship?
 - In what ways do ownership profiles and control influence a company's culture and strategy? Give some examples from the case studies and strategic considerations below.
 - Give some examples of stakeholders in international business, in what ways do companies take account of their interests, if at all?
 - National governments often play a direct role in international business in which countries is this role expanding and why? (See CF on Venezuela.)
- Explain the role of an inter-governmental organization.
- Why has there been a growth in international organizations at government level, and are they an aid or hindrance to business?

Case study 1.1: Volkswagen struggles to get back on the road

Volkswagen, Europe's largest carmaker, is seen as a symbol of German industrial strength, but it has also been hit by the negative side of German industry, including labour inflexibility and corporate government policies. The company has a long history of engineering excellence, in both car and components manufacturing. Unlike other motor manufacturers, it manufactures many of its components in-house in Germany. VW also is beneficial for Germany, particularly in the context of Germany's high labour costs. German automotive workers enjoy the highest earnings per hour of any in the world, as the figure shows. VW's labour costs per hour differ between eastern and western regions, and are much higher in Germany than in Portugal. German employees benefit from both a strong system of job security and a corporate government system based on co-determination, by which employees representatives take half the seats on their company's supervisory board. In the case of VW, these seats are all taken by the powerful labour union, IG Metall. VW's system of co-determination is a world success, and which plays a direct role in employment matters. Failing profits and loss of competitive position have forced VW's management to embark on a cost-cutting strategy, but it has been difficult to reduce its labour costs, even though it estimates that the company's factories are not overcapacity.

In 2003, VW reported its third annual drop in profits. Meanwhile, the company reflected that its cost-cutting strategy had failed. The company was hit by the weakness of the US dollar, but, as the kind of its US operations has peaked out, the company was also to lose. Two new models and better marketing should help to boost sales, but he has also recognized that cost savings could be found by bringing components locally for its Mexican factory. VW has long been a market leader in China. This is due to two factors, control of its own destiny, and the Shanghai Automotive Industry Corporation (SAIC). These factors have led to the case of VW in China, which has been growing rapidly. However, some estimates such as the General Motors. Hyundai and Honda have crowded into this booming market, and VW has been forced to re-evaluate its position in the Chinese market. In 2003, VW has been forced to re-evaluate its position in the Chinese market. In 2003, VW has been forced to re-evaluate its position in the Chinese market.

A programme of cost savings was embarked on in 2003. Agreement was reached with the labour union on a wage freeze, and there are plans for restructuring, which would see job losses of perhaps 10,000. Agreement with the union would ensure that these losses are voluntary, and a new agreement to allow workers to return as it will help to reduce the unemployment.

Country	Labour cost per hour (€)
VW (Germany)	~40
VW (Portugal)	~25
IG Metall (Germany)	~45

Full case study (CS) offering detailed insight into a particular issue

Further research directing students to more in-depth information

THE INTERNATIONAL DIMENSION AND THE ORGANIZATION

Table: Ownership structure of Volkswagen and VW shares

Shareholder	Percentage of votes	Percentage of capital
Volkswagen	20.1	20
Lower Saxony	29.4	30
Free float	50.6	50
Private		
French and Polish families	100	100
Ten Euro	0	0

state of shareholdings. This law was ruled unlawful by the European Court of Justice in 2007 - a ruling which could pave the way for Porsche to increase its shareholding and thereby take over the company.

The group consists of Lower Saxony and IG Metall are concerned about the long-term future of Volkswagen, and particularly about jobs in the region. Early in 2008, the German government bowed to the court's decision, but maintained support for the position of Lower Saxony and the trade union in VW, which could thwart Porsche's design. Porsche, which is the world's most profitable carmaker, has faced criticism that it is in a position to use VW's engineering resources to its own benefit, including the possibility of having VW manufacture a new Porsche model, rather than developing its own manufacturing base. The union, IG Metall, uses its powerful position on the supervisory board to defend its members, the German car workers. For German employees, the company's other initiatives have little role. In 2008, the decision was taken to shift some production away from lower cost countries back to Germany, displacing car workers in Spain, Portugal and Belgium, where plants have been highly productive. Porsche has considered converting VW into an SE, which would reduce the number of union representatives, but is at present too much resistance, due to the class of politicians.

TO RECAP:
Ownership structure: The private company's shares are typically owned by a small number of owners and cannot be traded on a stock exchange. The public company's shares are traded on one or more stock exchanges, although the proportion of shares floating in the way varies in many public companies, from a case of established shareholders.

Further research

Journal articles:
Alvarez, S. and Barney, J. (2007) The entrepreneurial theory of the firm, *Journal of Management Studies*, 44(7): 1031-69.
Sorenson, G. and Oxenfeldt, R. (2007) Internationalization in small, international or larger firms?, *Journal of International Business Studies*, 38(1): 193-198.
Matthews, G. and Zanolli, L. (2007) The international entrepreneurial dynamics of a globalized multinational: a case study, *Journal of International Business Studies*, 38(1): 381-403.
Nelson, R. (1991) Why do firms differ and how do they matter?, *Strategic Management Journal*, 12(4): 41-49.

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Sorenson, G. and Oxenfeldt, R. (2007) Organizational environments and the multinational enterprise, *Academy of Management Review*, 32(4): 1031-1049.
Witt, U. (2007) Firms as institutions of internationalization, *Journal of Management Studies*, 44(7): 1049-1060.

Books:
Barney, J. (2006) Corporate Entrepreneurship, and eds, Redding, R. and MacLagan, P. (2006) Business, Government and Society: A Journal of International Business Studies, 37(1): 381-403.
Nelson, R. (1991) Why do firms differ and how do they matter?, *Strategic Management Journal*, 12(4): 41-49.

WEB CHECK

1. Volkswagen: <http://www.vw.com>
2. Porsche: <http://www.porsche.com>
3. IG Metall: <http://www.igmetall.de>
4. European Court of Justice: <http://www.cjec.europa.eu>