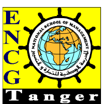

SUPPORT

Globalization and business environment

Extrait de l'ouvrage :
Managing Internationally
Succeeding in a Culturally Diverse World
Kamal Fatehi (pp. 7-17)
Sage Publications, 2008, usa

Gaining a competitive advantage in the global market is possible only if we understand the underlying forces and concepts of international management. The application of these concepts in managing the cultural and operational diversity of international business is a challenging task.

The Changing Profile of the Global Business Environment

There are many factors that increase the impact of international business, and consequently the role of MNCs, in our lives. The increased volume of international business heightens the importance of international management. The world economy is moving ever faster to a highly interrelated, interdependent state, in which no nation will be immune from the forces of the global market. In such an environment, it is vitally important that we know how to manage international business operations. Eleven major factors underline the significance of international business (see Figure 1.1).

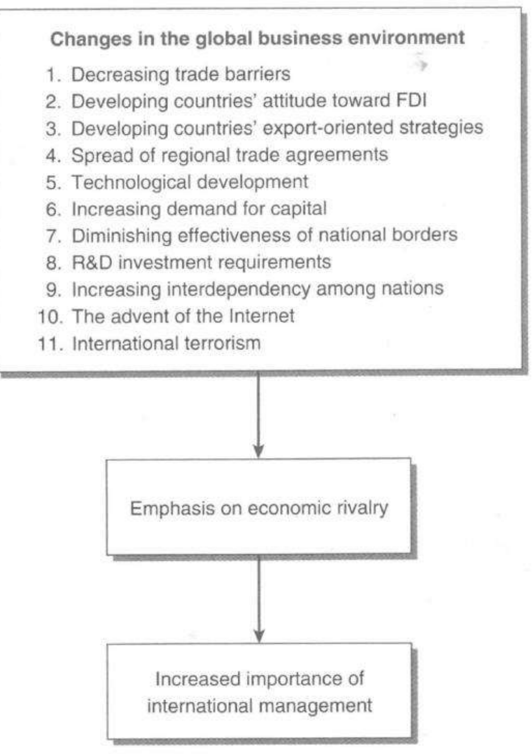

Figure 1.1 The Changing Profile of Global Business

Decreased Trade Barriers

The tendency of most countries is to strive for free world trade and the removal of trade barriers. A very good indication of this tendency is the expansion of world trade. During the last quarter of the past century, world trade expanded more than 19 times (see Table 1.1).

The supporters of free trade believe that free world trade is vital to their economic prosperity. Since World War II, countries that have been more open to international business and free trade have grown faster than countries that were less open to the global economy (p. 233).[8] Some, however, would like to take advantage of the open markets of other countries without reciprocating and allowing others free access to their domestic markets. A few have been fairly successful in such practices. The imposition of trade and nontrade restrictions has created friction among the European countries, Japan, and the United States. The handling of such friction, however, suggests the willingness of all to solve these problems in a mutually acceptable and amicable manner. Of course, totally free world trade will not arrive overnight. But there is an inexorable movement toward the removal of most trade restrictions and barriers.

Certain transitory arrangements are already developing. For example, Europe has created an integrated economic and monetary system. An integrated Europe could produce a market larger than the United States. The United States, Canada, and Mexico have created the North America Free Trade Agreement (NAFTA), which removes most of the trade restrictions

Table 1.1 World Trade Trends: 1970 to 2000

Year	1970	1980	1990	2000
Exports (FOB), billions of U.S. dollars				
World	298.8	1,945.9	3,438.6	6,310.1
Industrialized countries	223.0	1,265.1	2,454.1	3,984.7
Developing countries	75.8	680.8	984.6	2,325.4
United States	42.7	225.6	393.6	781.1
Imports (CIF), millions of U.S. dollars				
World	313.5	2,015.6	3,532.2	6,512.8
Industrialized countries	232.4	1,400.4	2,573.3	4,317.0
Developing countries	81.1	615.3	956.9	2,195.8
United States	42.4	257.0	517.0	1,257.6

SOURCE: References 6, pp. 128–135; 7, pp. 130–141.

NOTE: The data prior to 1995 exclude Eastern Europe and the former USSR. FOB, freight on board; CIF, cost, insurance, and freight.

among them and creates the largest free trade bloc. A free trade agreement between the United States and the Central American countries (CAFTA) was signed. Members of CAFTA are the United States, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. Similar events may occur in the Australasian region.

Developing Countries' Attitude Change

The attitudes of many developing countries toward MNCs and FDI have changed. Before the mid-1970s, most developing countries took a dim view of FDI. Expropriation, the forced divestment of foreign assets, and nationalization, the host government seizure of MNC assets, were frequently used as a policy choice by many developing countries in their disputes with MNCs. The large number of pre-1970s expropriations has been attributed to certain problems that developing countries were experiencing. Among them were the lack of administrative capability, the low level of economic development, and an inability to service foreign debts.[9] Also, the East-West conflict was fueling the flames of disputes between the MNCs and the developing countries. After the mid-1970s, however, there has been a dramatic decline in the number of expropriations and nationalizations. This was due to two factors: (1) the improved capabilities of developing countries as discussed below and (2) the realization that a significant relationship exists between FDI and economic growth.[10]

As developing countries improved their economic and political capabilities, the need for ownership control through expropriation and nationalization diminished. Now they can achieve their objectives through taxation and performance requirements rather than by direct control. The changing attitudes of developing countries toward FDI have led some to argue that the attractiveness of foreign investment is growing and its supply is decreasing. Consequently, competition to attract FDI should escalate, and governments may outbid each other with packages of investment incentives and inducements.[11] This may result in increased international trade and may open up previously inaccessible markets.

Adoption of Export-Oriented Strategies by Developing Countries

Hoping to duplicate the success achieved by Japan, Korea, and other Asian nations, many developing countries are adopting an export-oriented strategy of economic growth. The circumstances under which Japan, and to some extent Korea, employed their export-oriented strategies have changed. During the period in which these countries used export-oriented strategies,

the U.S. market absorbed the bulk of their exports. This resulted in a substantial trade deficit in the United States. Since this trend cannot continue unabated, and the United States is determined to reverse it, other nations may not fully succeed in emulating Japan. If these countries do not succeed in keeping their markets relatively closed to others, global exports will increase, international trade will expand further, and international management will gain more prominence.

Export-oriented strategy, in part, involves MNCs' participation. As Lecraw and Morrison[12] have noted, 30% to 40% of industrialized countries' imports are through intrafirm trade by MNCs. As more countries view MNCs as an instrument for achieving this goal, we must understand how these firms operate and how they are managed.

Spread of Regional Trade Agreements

Regional trade agreements and pacts are reducing trade restrictions among the members and increasing intraregion trade. Membership in regional trade agreements is on the rise.[13] The most notable trade agreements are NAFTA, the European Union (EU), the Association of South East Asian Nations (ASEAN), and the Andean Pact.

Some speculate that in the future there will be three trading blocks dominating world trade. The first bloc is the EU. The second bloc is the ASEAN, with the expanded membership that could include Australia, India, and Japan. The third bloc is America, with the membership of Argentina, Brazil, Canada, Chile, Mexico, the United States, and Venezuela. There could be relatively free or open trade within these blocs and trade restrictions between them.[3] A strategic response to such a scenario is for firms to have a foothold within each bloc or form strategic alliances with those that already operate within the blocs. Either case results in the expansion of the roles and scope of international management.

Technological Developments

Recent technological developments, particularly in manufacturing, have altered the nature of international business. Robotics, computer-aided design (CAD), computer-aided manufacturing (CAM), and flexible manufacturing have reduced production costs for most products. These technologies have also reduced the labor component of some products. As a result, the low-labor-cost position is less effective as a competitive strategy. Therefore, we expect that the low-labor-cost countries will try to tap MNCs for technology transfer and attempt to move up the supply chain.

Global Demand for Capital

One of the key features of globalization is the increase in capital mobility, which propels national and local governments alike into a heightened competition.[14] Competition for capital will increase further as demand for it rises. Demand for capital from Eastern European countries, and also from the various republics of the former Soviet Union, will likely intensify competition in capital markets. Another important factor in the rising demand for capital is the sovereign debt crisis of the 1980s. In the 1980s, heavily indebted developing countries experienced great difficulty paying back their debts. This resulted in a very serious financial strain on the American and European banks and financial institutions that had given them the loans. Ever since, these institutions have become more cautious, and private sources of capital have become scarce and costly. The financial turmoil during the 1990s in Southeast Asia did not improve matters either. Consequently, more countries are viewing the equity capital from MNCs as a viable alternative. They are realizing the important role of FDI in economic development[15] and its impact on future opportunities for catching up with the developed countries.[16] This is another reason for the changing attitudes of developing countries toward MNCs.

Diminishing Effectiveness of National Borders

Slowly but steadily, national borders are losing their effectiveness in dealing with MNCs. Although we are witnessing a rising national fervor among the subjugated people of the former Soviet bloc, there is evidence that certain new developments are evolving that defy the traditional model. For example, a number of Americans with dual citizenship have served in the governments of Armenia, the former Yugoslavia, and Estonia. In 1998, a U.S. citizen, Vadas Adamkus, was elected president of his native Lithuania. The number of countries that allow dual citizenship is on the rise. Every year, more U.S. citizens claim a second nationality. Overall, the requirement for gaining dual citizenship in these countries is for one to have been born there or have a parent or grandparent as a citizen of those countries. On that basis, and based on the U.S. Census data, it is estimated that at least 500,000 people in the United States are eligible for dual citizenship. This trend has spawned a burgeoning area of study that draws from such diverse disciplines as law, sociology, anthropology, and philosophy. These scholars call the new way of living "flexible citizenship" or "transnationalism." According to them, the old model of nationality is outmoded in this globalizing world.[17]

The top executives of some well-known American firms are foreign citizens. The number of foreign executives in American and European corporations

is on the rise. Even staid Japanese firms have not been immune to this trend. After Renault, the French automobile company, took over Japanese carmaker Nissan, it dispatched a Brazilian-born executive as its first foreign chief operating officer.[18] Also, Sony, for the first time, selected Howard Stringer, an American, as its chairman and chief executive officer.[19] For many years, European firms have been preparing for a borderless market in which the nationalities of managers have no bearing on their selection and cross-national career advancement is a norm. Many well-known European firms regularly promote foreigners to their top executive ranks.

The international agreement that created the World Trade Organization (WTO) and empowered it with enforcement authority is a clear indication that, slowly but inexorably, borders are vanishing. It should be noted that for the first time, governments may face the situation where their sovereignty could be curtailed by WTO rules. As the critics of the WTO argue, "The WTO is basically the first constitution (with a global reach) based on the rules of trade and the rule of commerce. Every other constitution has been based on the sovereignty of people and countries" (as quoted by the Indian activist Vandana Shiva in Ref. 20, p. 125). This indicates that trade has assumed a prominent position in our international perspective. Such a view, and the fact that some of the governments' sovereign powers could be challenged by WTO rules, suggests that in the future, nations may face the diminishing effectiveness of national borders and loss of sovereignty.

Investment Requirements of New Technologies

The enormous investment required in new technologies and in research and development and the increasing scale of economies needed for an optimum operation are compelling firms to consider the whole world as a market. In many industries, even the largest and most resourceful firms cannot afford the enormous investment required in today's research and development and new technologies. For example, the estimated U.S.$1 billion needed to develop a new generation of dynamic random access memory chips (DRAMs) forced IBM to form a joint venture with Toshiba Corporation of Japan and Siemens AG of Germany.[21] Similarly, because of the huge cost of developing new drugs, giant pharmaceutical companies such as Glaxo Welcome, Smith Kline Beecham, and American Home Products are forced to look for merger partners.[22] The immense operations and marketing costs of new high-technology products, along with other requirements, have been the driving force behind the increased internationalization and cross-border corporate mergers. Even the U.S. defense industry has been forced to adjust due to the skyrocketing costs of new technologies. Recently, for example, a number of European countries were invited to join in producing the radar-evading Joint Strike Fighter jet. The Joint Strike Fighter project spans more than two decades, is considered the biggest military

project in history, and could cost U.S.$200 billion. The interesting aspect of this deal is that not only have other nations accepted involving the U.S. defense contractors in their military operations, but the United States has also invited the other countries to participate in a U.S. military project.[23]

Increasing Interdependence Among Nations

International linkages among countries are creating a higher degree of interdependency, characterized by the increasing volume of FDI. Tables 1.1 and 1.2 illustrate the increase in FDI during the 1970 to 2000 period. While U.S. FDI has been increasing, other countries' investment in the United States has been on the rise also. From 1970 to 2000, U.S. FDI increased more than 15 times. In contrast, FDI in the United States expanded more than 93 times. By 2000, U.S. investment abroad was only slightly larger than FDI in the United States.

In three phases, international linkages have been growing since World War II:

1. The first phase began with the successive reduction of international trade restrictions, which increased world trade. In the mid-1980s, trade was 33% of the gross domestic product of developing countries. It rose to 43% in the mid-1990s.[24] The WTO estimates that due to trade liberalization, real-world income could increase by U.S.$510 billion annually.[25]
2. In the second phase, interdependency through trade was followed by financial integration, which was aided by recycling of the Organization of Petroleum Exporting Countries' surplus during the 1970s. The revenue generated by rising oil prices created a huge surplus, which was invested in Western economies. For such an immense amount of money, the Western economies were the best and safest places for investment. This increased interdependence further.

Table 1.2 **The U.S. Direct Investment Position Abroad and the Foreign Direct Investment Position in the United States, 1970 to 2000 (in Millions of U.S. Dollars)**

Year	1970	1980	1990	2000
Total U.S.	78,178	215,578	424,086	1,244,654
All countries	13,270	68,351	396,702	1,238,627

SOURCE: Reference 4.

3. Now we are experiencing the third phase of international linkage, which is often referred to as globalization. Globalization is the integration, across borders, of markets for capital, goods, services, knowledge, and labor.[26] The characteristics of this phase include FDIs made by MNCs and technological alliances among them.

A large and growing portion of world trade involves intrafirm trade. For example, in the case of the United States and Japan, more than half the total trade flow is related to intrafirm transactions.[27] These are signs of changing times and the globalization of business. The introduction of market forces, freer trade, and widespread deregulation is happening all over the world. It is signaling that, more than ever before, international trade and investment play an eminent role in our lives. Products are produced everywhere and sold and consumed everywhere. It is becoming very difficult, if not impossible, to identify the national origin of many products. Today, products are assembled from parts produced all over the globe. When the U.S. government was questioning if Honda automobiles had more than 50% U.S. contents, it became clear that General Motors, Ford, and Chrysler were not in a much better position. The issue of national origin is becoming an international trade problem.

Not only are capital, products, and services moving across borders with ease, but people are also moving around the globe at an increasing rate. Two factors related to corporate needs and human aspirations encourage immigration: (1) MNCs are promoting the best employees to higher positions and transferring them to places around the world where they can best serve the expanding, globally integrated firm (see Factor 7, page7) and (2) educated, skilled, and cosmopolitan people in search of a better life find a relatively hospitable reception in many places where their skills and knowledge are needed. Of course, the issue of low-skill labor immigration is a separate matter. This movement exposes people, and particularly employees of MNCs, to diverse ways of thinking, behaving, and problem solving. This builds a closer relationship between MNCs, the host governments, and people from diverse cultures. People in host countries are exposed to cultural diversity and ethnic heterogeneity without traveling away from their homes. The end result is further globalization and an increase in the pace of the march toward a "global village."

One More Step Toward the Global Village

Bank of New York, along with Deutsche Bank, devised the structure of global shares to create an alternative for foreign companies to the American depository shares and receipts (ADSs and ADRs). Global shares are ordinary shares traded in multiple currencies around the world. ADSs and ADRs are not direct shareholdings. They are

derivatives of foreign shares created by a U.S. custodial bank. To sell them outside the U.S. banks, they must be converted back to ordinary shares. Their holders may lack the same voting privileges as ordinary shareholders. For these reasons, many foreign issuers consider global shares as an alternative.

In November 1998, DaimlerChrysler began trading as a global share in the United States, Germany, Japan, and five other countries. The financial services giant UBS and the German chemical company Celanese have followed DaimlerChrysler in issuing global shares.

The costs and complexities involved in global shares, however, have kept other potential issuers on the sideline. Linking the home country's clearing and settlement systems with those of the United States and harmonizing local regulations with those of the Securities and Exchange Commission are not simple tasks. We can claim to have arrived at the global village if and when we overcome these hurdles (adapted from Ref. 28).

The Effect of the Internet

In addition to the nine factors already discussed, the development and widespread use of the Internet is a force that greatly influences internationalization of business activities. The advent of the Internet is akin to a revolution. It has permeated many aspects of our lives in ways no one could have anticipated. It has affected many business practices, transformed some, and created new ones.

The Internet reduces business entrance barriers and production costs and increases productivity. Above all, it greatly affects developing and expanding international business activities and presents a significant challenge to traditional internalization arguments. Traditionally, companies would start small and be locally focused, growing gradually. The final stage of growth and expansion would take the firm to the international arena. With the use of the Internet, businesses can be designed from the beginning with the global market in mind. This type of organization is discussed in the chapter on organizational structure.

The Internet affects international business in the following ways:[29,30]

1. It increases global commonality in consumer needs and tastes. This, in turn, makes it possible for MNCs to use more global strategies (discussed in the chapter on strategy) through offering standardized products and services. This is possible because the appeal of globally recognized brands will increase as a result of the worldwide use of the Internet. At the same time, it creates more opportunities for less recognized products and companies in international markets. Dell

Computer, for example, by shifting its marketing and sales efforts to the Web, transformed itself from a contender to a leader in the personal computer industry.

2. It enables MNCs to centralize or coordinate their purchasing globally. In effect, it provides the opportunity to MNCs to become global customers. At the same time, it allows regional firms such as United Parcel Service and DHL to grow faster. Before the advent of the Internet and the Web, globally centralized purchasing required complex, expensive paper-based coordination of dispersed subsidiaries and suppliers. In the case of the Internet, more efficient global sourcing is possible.

3. It drives down global economies of scale, reducing the minimum efficient size of operation. Many physical activities are replaced by Web-based virtual activities. Also, the availability of global distribution channels allows companies to spend much less on international distribution systems or eliminates the need for such systems altogether. Therefore, as a result of reduced economies of scale and transaction costs, well-managed, smaller companies can effectively compete with larger MNCs. By substituting or supplementing physical activities, the Internet makes it easier for firms to participate at the global level. This feature has a couple of ramifications: (1) it allows for companies to be present in smaller markets, which were previously not economically feasible for them, and (2) it enables smaller companies to be global players. With the Internet, it is possible to have a global strategy and at the same time to be responsive to the particular needs of local markets.

International Terrorism

Globalization has provided economic benefits to most nations. The vanishing effectiveness of national borders, increased international trade, the information explosion, including the use of the Internet, and increased immigration have also, however, made it easier for various groups to engage in terrorism. This adversely affects international business. But like the previous 10 factors, it increases the importance of international management. Business is always in search of lower risk and higher return on investment. Sociopolitical strife usually negatively influences business. An important component of strategic planning is the assessment of political risk, which deals with the negative consequences of sociopolitical instability and strife.[31] Because terrorism is a recent phenomenon, it has yet to be systematically incorporated into the business planning process. It is clear, however, that terrorism adversely affects national security.

The preceding 10 factors positively affect international business. International terrorism, however, negatively influences international business. It creates a unique form of nonbusiness risk. Nonbusiness risks are

commonly discussed under the topic of country risk or political risk. This topic has been explored by international scholars,[32] who maintain that it adversely affects FDI. The risk due to international terrorism is a recent issue. Its impact on business and the reaction to it are yet to receive scientific and scholarly scrutiny.

The issue of national security as it relates to more frequent acts of terrorism has become a very sensitive matter to industrialized countries. It has become very important particularly to the United States after the tragedy of September 11, 2001. Experts have been sounding alarms about securing the U.S. borders and particularly the ports.[33] The issue of port security drew a very strong uproar after the purchase of a British firm, which operated five terminals at U.S. ports, by Dubai Ports World (DPW). DPW is located in the United Arab Emirates, a country to the south of the Persian Gulf. Some argued that this event would create in the minds of international investors a country risk similar to those of politically volatile developing countries. Such a development could disrupt an increasingly interdependent world economy. It might discourage foreign investment in the United States, on which the nation is heavily dependent. An outcry against similar big acquisitions in Europe stirred concern over a rise in economic nationalism and a backlash against globalization.[34]

MNCs may be forced to react to terrorism against their assets and personnel by (1) forming armed security forces to protect their interests in foreign countries;[35] (2) increasing advance training[36] and proper employee selection for foreign assignments (see the chapter on international human resources); and (3) following experts' recommendations to the intelligence community[37] to improve and expand international management education and training for those assigned to foreign operations.