



chapter

5

Ready Notes

*The Global
Environment*

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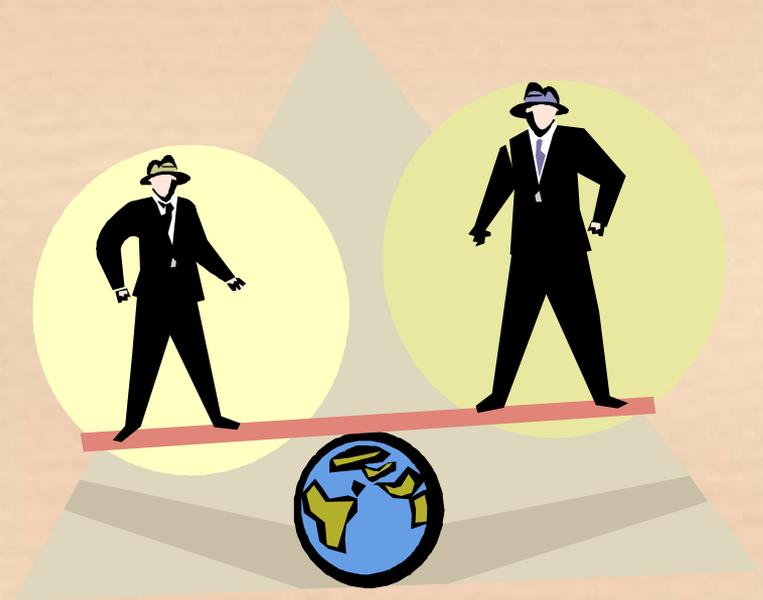
The Meaning of International Business

- Domestic business: a business that acquires all its resources and sells its products or services within a single country.
- International business: a business that is primarily based in a single country but acquires some meaningful share of its resources or revenues (or both) from other countries.



Meaning of International Business (cont'd)

- Multinational business: one that has a worldwide marketplace from which it buys raw materials, borrows money, and manufactures its products and to which it subsequently sells its products.
- Global business: a business that transcends national boundaries and is not committed to a single home country.



Levels of International Business Activity

Lowest **Level of International Activity** **Highest**

**DOMESTIC
BUSINESS**

**INTERNATIONAL
BUSINESS**

**MULTINATIONAL
BUSINESS**

**GLOBAL
BUSINESS**



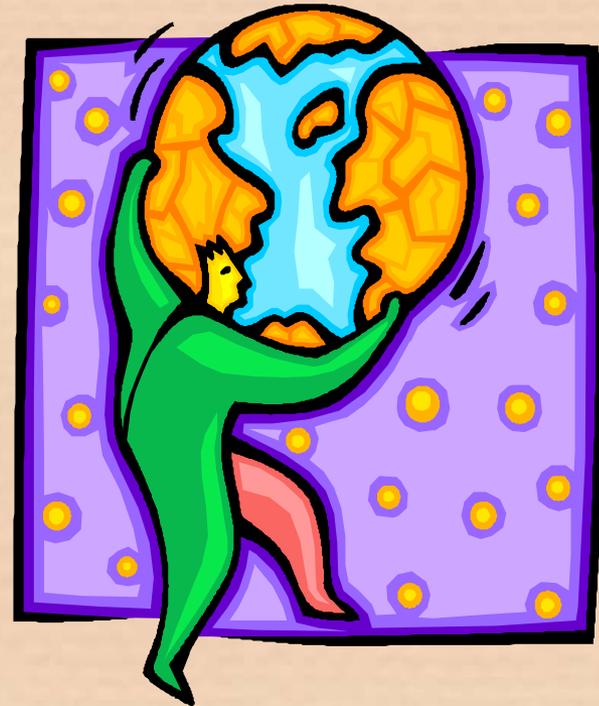
Terms to Remember:

Market economy:

- Economy based on the private ownership of business and allows market factors such as supply and demand to determine business strategy.

Market system:

- Clusters of countries that engage in high levels of trade with each other.



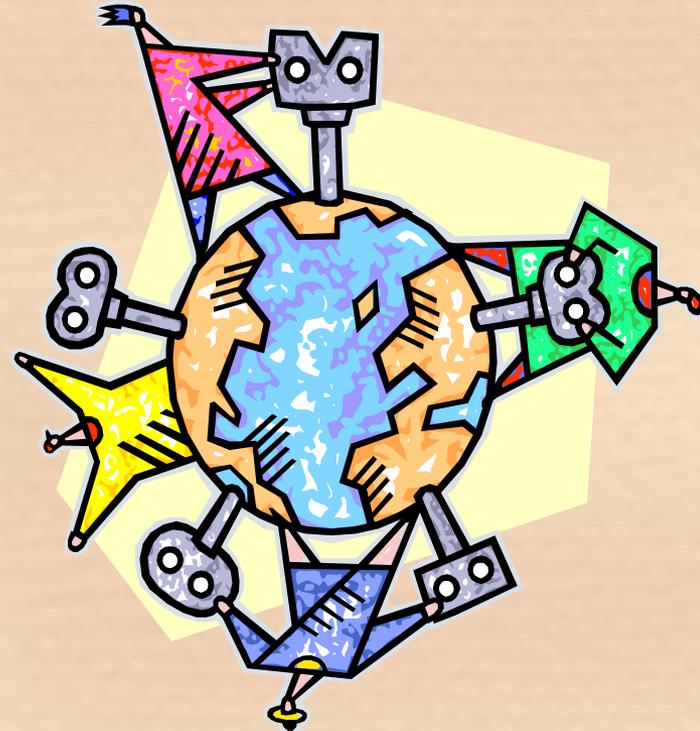
Managing the Process of Globalization

- Exporting: making a product in the firm's domestic marketplace and selling it in another country.
- Importing: bringing a good, service, or capital into the home country from abroad.
- Licensing: an arrangement whereby a firm allows another company to use its brand name, trademark, technology, patent, copyright, or other assets in exchange for a royalty based on sales.



Processes of Globalization (cont'd)

- Strategic alliance: a cooperative arrangement between two or more firms for mutual gain.
- Joint venture: a special type of strategic alliance in which the partners share ownership of a new enterprise.



Processes of Globalization (cont'd)

- Direct investment: when a firm headquartered in one country builds or purchases operating facilities or subsidiaries in a foreign country.
- Maquiladoras: light assembly plants built in northern Mexico close to the U.S. border that are given special tax breaks by the Mexican government.
(see Table 5.1)



TABLE 5.1

Advantages and Disadvantages of Different Approaches to Internationalization

When organizations decide to increase their level of internationalization, they can adopt several strategies. Each strategy is a matter of degree, as opposed to being a discrete and mutually exclusive category. And each has unique advantages and disadvantages that must be considered.

Approach to Internationalization	Advantages	Disadvantages
Importing or Exporting	<ol style="list-style-type: none">1. Small cash outlay2. Little risk3. No adaptation necessary	<ol style="list-style-type: none">1. Tariffs and taxes2. High transportation costs3. Government restrictions
Licensing	<ol style="list-style-type: none">1. Increased profitability2. Extended profitability	<ol style="list-style-type: none">1. Inflexibility2. Competition
Strategic Alliances/ Joint Ventures	<ol style="list-style-type: none">1. Quick market entry2. Access to materials and technology	Shared ownership (limits control and profits)
Direct Investment	<ol style="list-style-type: none">1. Enhanced control2. Existing infrastructure	<ol style="list-style-type: none">1. Complexity2. Greater economic and political risk3. Greater uncertainty

Advantages and Disadvantages of Different Approaches to Internationalization

Approaches to Internationalization:	Advantages:	Disadvantages:
Importing or Exporting	<ol style="list-style-type: none"> 1. Small cash outlay 2. Little risk 3. No adaptation 	<ol style="list-style-type: none"> 1. Tariffs and taxes 2. High transportation costs 3. Government restrictions
Licensing	<ol style="list-style-type: none"> 1. Increased profitability 2. Extended profitability 	<ol style="list-style-type: none"> 1. Inflexibility 2. Helps competitors
Strategic Alliance/ Joint Ventures	<ol style="list-style-type: none"> 1. Quick market entry 2. Access to materials and tech. 	<ol style="list-style-type: none"> 1. Shared ownership limits 2. Control and profits
Direct investment	<ol style="list-style-type: none"> 1. Enhances control 2. Existing infrastructure 	<ol style="list-style-type: none"> 1. Complexity 2. Greater economic and political risk 3. Greater uncertainty



The Three Elements of the Global Economy

- 1a. Market economy: an economy based on the private ownership of business and allows market factors such as supply and demand to determine business strategy.
- 1b. Market systems: clusters of countries that engage in high levels of trade with each other. (see Figure 5.2)

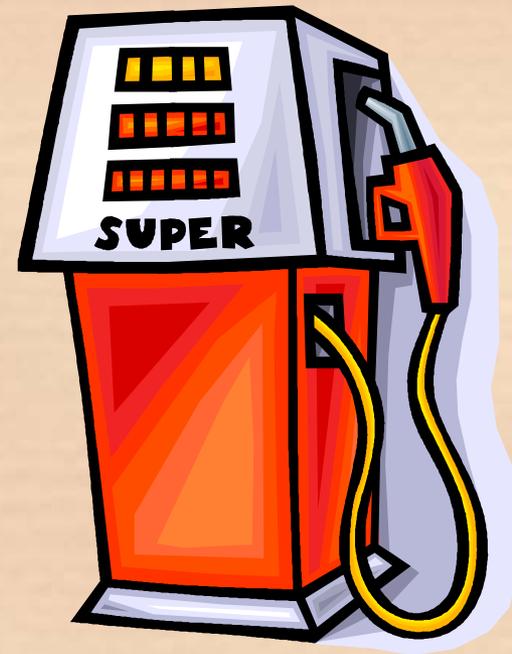


Figure 5.2: The Global Economy



The Three Elements of the Global Economy (cont'd)

2. High potential/high growth economies, who have been relatively underdeveloped and immature and, until recently, were characterized by weak industry, weak currency, and relatively poor consumers.
3. Other economies, exporting countries with property ownership, and the development of infrastructure, and are import players.



Environmental Challenges of International Management

- Economic system: most countries today are moving toward market economies. (see Figure 5.3)
- Natural resources: different countries have various availability of natural resources.
- Infrastructure: the schools, hospitals, power plants, railroads, highways, ports, communication systems, air fields, and commercial distribution systems of a country.



Figure 5.3: Environmental Challenges of International Management



NAFTA

North American Free Trade Agreement:

- Agreement among the U.S., Canada, and Mexico.

European Union (EU):

- First and most important international market system.

Pacific Asia:

- A market system located in Southeast Asia.



The Political Legal Environment

- Government stability is important to managers seeking international opportunities. No business wants to set up shop in a foreign market only to see its investment disappear in the face of government nationalization or civil unrest.
- Nationalized: taken over by the government.



Controls on International Trade

- **Tariff:** a tax collected on goods shipped across national boundaries.
- **Quota:** a limit on the number or value of goods that can be traded.
- **Export restraint agreements:** accords reached by governments in which countries voluntarily limit the volume or value of goods they export and import from one another.



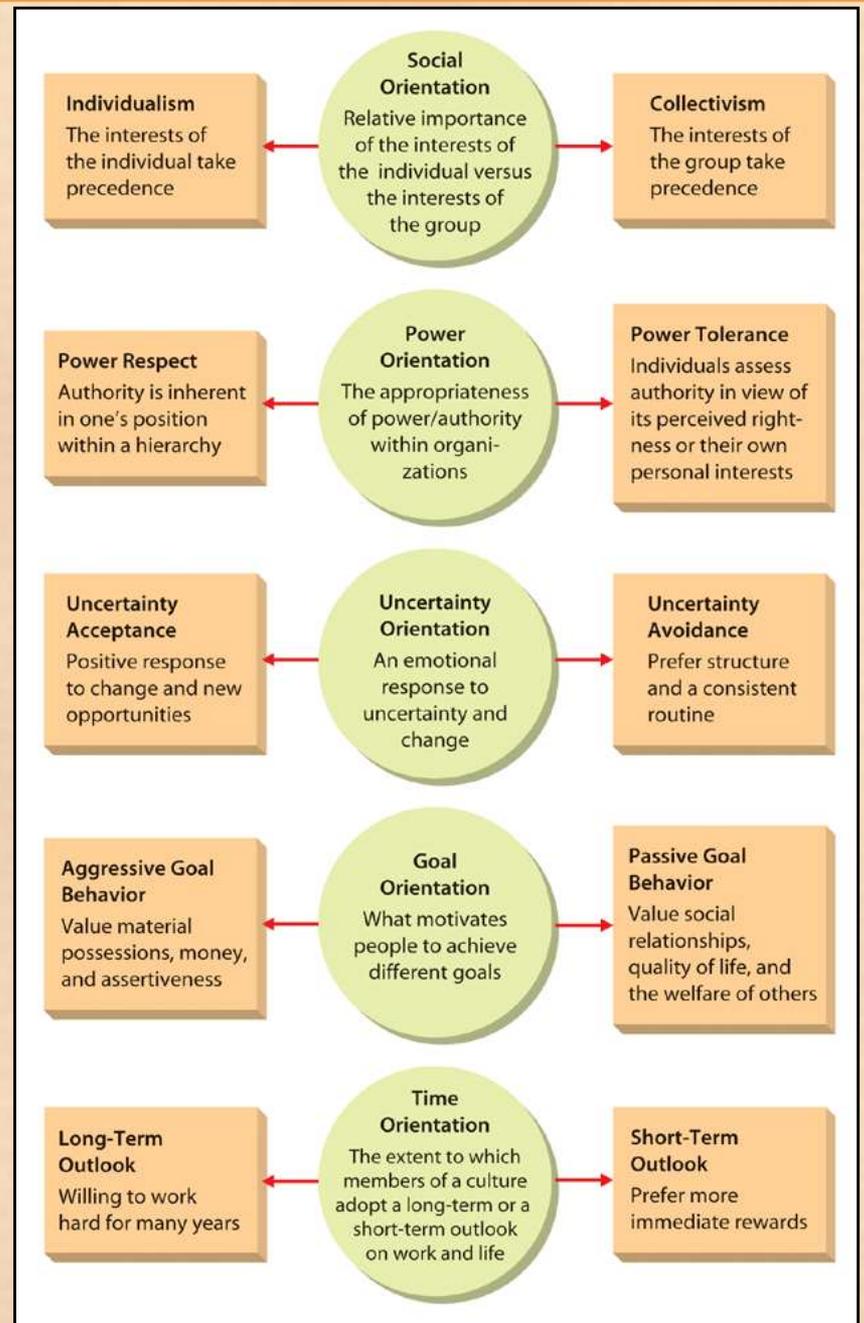
The Cultural Environment

Individual differences across cultures:

- Social orientation: a person's beliefs about the relative importance of the individual versus groups to which that person belongs.
- Power orientation: the beliefs that people in a culture hold about the appropriateness of power and authority differences in hierarchies such as business organizations.

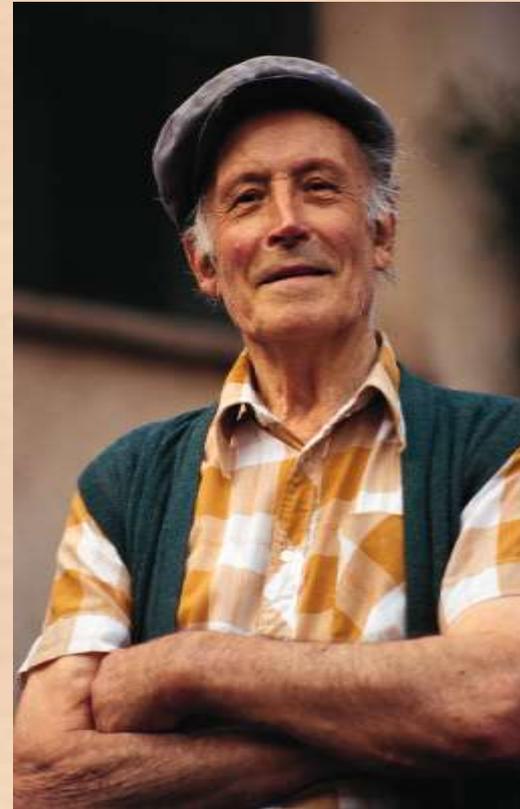


Figure 5.4: Individual Differences Across Cultures



Differences Across Cultures

- Uncertainty orientation: the feeling individuals have regarding uncertain and ambiguous situations.
- Goal orientation: the manner in which people are motivated to work toward different kinds of goals.
- Time orientation: the extent to which members of a culture adopt a long-term versus a short-term outlook on work, life, and other elements of society.



Globalization and Organizational Size

- Multinational corporations transfer capital, technology, human resources, inventory, and information from one market to another, seeking new expansion opportunities.
- Medium-size organizations may buy and sell products made abroad and compete with businesses from other countries in their own domestic market.



Small Organizations

- Some serve as local suppliers, for example: Local parts suppliers have been successfully selling products to Toyota and Honda plants in the U.S.
- Beyond serving as local suppliers, some small businesses also buy and sell products and services abroad.



TABLE 5.2**The World's Largest MNCs: Industrial Corporations**

Rank, 2002	2001	Company	Country	Revenues \$ (millions)	% change
1	1	Wal-Mart Stores	U.S.	246,525.0	12.2
2	3	General Motors	U.S.	186,763.0	5.4
3	2	Exxon Mobil	U.S.	182,466.0	(4.8)
4	8	Royal Dutch/Shell Group	Netherlands/Britain	179,431.0	32.7
5	4	BP	Britain	178,721.0	2.6
6	5	Ford Motor	U.S.	163,871.0	0.9
7	7	DaimlerChrysler	Germany	141,421.1	3.3
8	10	Toyota Motor	Japan	131,754.2	9.1
9	9	General Electric	U.S.	131,698.0	4.6
10	12	Mitsubishi	Japan	109,386.1	3.4
11	13	Mitsui	Japan	108,630.7	7.3
12	18	Allianz	Germany	101,930.2	18.6
13	11	Citigroup	U.S.	100,789.0	(10.0)
14	15	Total	France	96,944.9	2.8
15	14	ChevronTexaco	U.S.	92,043.0	(7.7)
16	16	Nippon Telegraph & Telephone	Japan	89,644.0	—
17	20	ING Group	Netherlands	88,102.3	6.1
18	17	Itochu	Japan	85,856.4	(5.8)
19	19	International Business Machines	U.S.	83,132.0	(3.2)
20	21	Volkswagen	Germany	82,203.7	3.7
21	22	Siemens	Germany	77,205.2	(0.2)
22	23	Sumitomo	Japan	75,745.2	(1.8)
23	25	Marubeni	Japan	72,164.8	0.6
24	26	Verizon Communications	U.S.	67,625.0	0.6
25	34	American International Group	U.S.	67,482.0	8.1
26	32	Hitachi	Japan	67,228.0	5.2
27	29	U.S. Postal Service	U.S.	66,463.0	1.0
28	41	Honda Motor	Japan	65,420.4	11.1
29	35	Carrefour	France	64,978.6	4.4
30	24	Altria Group	U.S.	62,182.0	(14.8)

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Rank, 2002	2001	Company	Country	Revenues \$ (millions)	% change
31	30	Axa	France	62,050.8	(5.4)
32	37	Sony	Japan	61,334.6	1.2
33	33	Nippon Life Insurance	Japan	61,174.5	(4.2)
34	45	Matsushita	Japan	60,744.3	10.5
35	38	Royal Ahold	Netherlands	59,454.6	(0.3)
36	188	ConocoPhillips	U.S.	58,384.0	141.4
37	46	Home Depot	U.S.	58,247.0	8.8
38	55	Nestlé	Switzerland	57,279.1	14.1
39	57	McKesson	U.S.	57,129.2	14.2
40	70	Hewlett-Packard	U.S.	56,588.0	25.1
41	58	Nissan Motor	Japan	56,040.8	13.1
42	51	Vivendi Universal	France	54,977.1	7.0
43	42	Boeing	U.S.	54,069.0	(7.1)
44	50	Assicurazioni Generali	Italy	53,598.9	4.3
45	52	Fannie Mae	U.S.	52,901.1	4.1
46	49	Fiat	Italy	52,612.5	1.3
47	27	Deutsche Bank	Germany	52,133.2	(22.0)
48	31	Credit Suisse	Switzerland	52,121.7	(18.8)
49	79	Munich Re Group	Germany	51,980.0	24.1
50	62	Merck	U.S.	51,790.3	8.5
51	56	Kroger	U.S.	51,759.5	3.3
52	65	Peugeot	France	51,465.7	11.2
53	61	Cardinal Health	U.S.	51,135.7	6.6
54	44	BNP Paribas	France	51,127.3	(7.1)
55	75	Deutsche Telekom	Germany	50,759.5	17.3
56	63	State Farm Insurance, Cos.	U.S.	49,653.7	6.3
57	48	Aviva	Britain	49,533.3	(5.3)
58	72	Metro	Germany	48,714.5	9.8
59	105	Samsung Electronics	South Korea	47,605.6	32.4
60	123	Vodafone	Britain	46,987.0	43.6

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