Part 1 | Foundation Concepts

Chapter

1

Introduction: What Is International Business?

Learning Objectives *After studying this chapter, you should be able to:*

1.1 Describe the key concepts in international business.

1.2 Understand how international business differs from domestic business.

1.3 Identify major participants in international business.

1.4 Describe why firms internationalize.

1.5 Appreciate why you should study international business.

1.6 Learn the CKR Intangible Soft Skills™ and the CKR Tangible Process Tools™ to improve your employability and success in the workplace.

China Globalizes London's Black Cabs

Globalization refers to international transactions, cooperation, and competition among firms. China has become one of the most active trading nations in an increasingly globalized world. China's drive in transforming itself into an industrial economy gave birth to a thriving automobile industry, and Geely Automobile Holdings Limited, founded in 1986, was one of the products of that revolution. A subsidiary of Li Shufu's Zhejiang Geely Group, Geely began with motorcycle production and eventually, in 1997, it started manufacturing cars. Geely's moto, "Happy Life, Geely Drive" encourages its customers, suppliers, and human resources to participate in ensuring safe, environmentally friendly automobiles. Relentless pursuit of better technology, foreign brands, and overseas markets resulted in Geely's European acquisition of Volvo cars in 2010 and London Taxi Company (LTC) in 2012.

London EV Company, or LEVC (formerly London Taxi Company), is the manufacturer of the iconic London Black Cabs. Coventry has been the home of the company for the last 70 years. Coventry is the birthplace of the British motor industry and has a long tradition of manufacturing iconic automobile brands like Jaguar, Rover, Triumph, and Armstrong Siddeley. The FX4 model taxis rolled out in 1959 from the Coventry plant set the quintessential mold for the black cabs.

LEVC formed a partnership with Geely in 2006 and finally acquired the taxi maker in 2012 for $14.96 million after it went into administration. LEVC's current annual production is approximately 2,000 taxis. Geely has been constantly investing to increase capacity and competitiveness since acquisition. In 2016, the company announced a $400 million investment to build a new factory with a production capacity of approximately 36,000 cars

Source: Naki Kouyioumtzis/Pearson Education Ltd.

annually. This new investment was celebrated locally and nationally due to the 1,000 new jobs created and the boost to the local economy. Geely's ambition to put iconic London taxis in all major cities in the world required lots of innovation in emission technology and globalizing of the London taxi experience. The current technology is not suitable for bigger cities due to high emission, low fuel efficiency, and bulky weight, so the company has pledged to invest a further $105 million in research and development of its TX5 model with hybrid engines. Hybrid and electric taxis began to roll out from the new factory in 2018.

Western manufacturers are also developing strong manufacturing bases in China to tap the opportunities presented by the increasing purchasing powers of the Chinese people. Competition from foreign manufacturers, cost pressures due to stringent regulatory requirements at home and volatility in some export markets are some of the current challenges for Geely. The management is searching for new opportunities to overcome these challenges.

The Chinese government has extended its support to fund Geely's oversees ambitions. The Export–Import Bank of China is offering a $2.98 billion credit line to Geely, which is exciting news for privately owned enterprises in China, as favorable credit lines were mostly available for the state-owned enterprises (SOEs) until recently. This is an expected move from new Chinese leadership team, which is under chronic overcapacity and facing mounting losses of state-owned enterprises.

Geely's ownership of London Taxi Company is an example of acquisition by multinational corporations (MNCs) from emerging economies in the industrial hearts of developed countries. This is a fairly new phenomenon in international business but is becoming more and more common with the growing power of emerging economies.

AACSB and CKR Intangible Soft Skills to improve employability and success in the workplace: Written and Oral Communication, Reflective Thinking and Application of Knowledge

Questions

1-1. What might be the underlying motivations of emerging markets MNCs like Geely?

1-2. How does cooperation in international business offer competitiveness?

1-3. What role can the government play in promoting internationalization?

SOURCES: "Geely Warns of Growing International Pressure on Chinese Brands," *The Financial Times*, March 19, 2014, www.ft.com; "London Taxi Company Coventry Plant to Create 1,000 Jobs," *BBC*, March 26, 2015, www.bbc.co.uk; The London Taxi Company official website, London-taxis.co.uk; "Coventry's Motor Industry, Warwickshire," *Warwickshire Life*, February 7, 2010, www.warwickshirelife.co.uk; Geely official website, www. global.geely.com; "London's Black Cabs. A Resilient, Iconic Industry in a Time of Upheaval," *Huffington Post*, February 20, 2015, www.huffingtonpost.co.uk; China ExIm Bank official website, English.ex-imbank.gov.cn. "China SOE's Restructuring Leaves State Ownership Intact," *The Financial Times*, March 12, 2015, www.ft.com; "China SOE's Restructuring Leaves State Ownership Intact," *The Financial Times*, March 12, 2015, www.ft.com.

This case was written by Krish Saha, Birmingham City University.

International business Performance of trade and investment activities by firms across national borders.

As revealed in the opening case, international business touches our daily experiences. **International business** refers to firms' performance of trade and investment activities across national borders. Because it emphasizes crossing national boundaries, we also refer to international business as *cross-border business*. Firms organize, source, manufacture, market, and conduct other value-adding activities on an international scale. They seek foreign customers and engage in collaborative relationships with foreign business partners. Although international business is performed mainly by individual firms, governments and international agencies also conduct international business activities.[1] Firms and nations exchange many

CKR Career Preparation Kit™

In this textbook, *International Business: The New Realities,* by Cavusgil, Knight, and Riesenberger ("CKR"), we will present guidance on how best to prepare for a career in international business, the CKR CAREER PREPARATION KIT™.

The Unmet Need

Numerous surveys of employers, educators, and students suggest that today's graduates are not adequately prepared for the job market. Students need to acquire intangible soft skills and tangible process tools to improve their employability and succeed in the workplace.

The Solution

International Business: The New Realities CKR CAREER PREPARATION KIT has been specifically designed to integrate and advance your learning of intangible soft skills and tangible process tools.

CKR Intangible Soft Skills™

Surveys and the findings of the Association to Advance Collegiate Schools of Business (AACSB) identify the following Intangible Soft Skills as necessary for success in today's workplace:

- *Written and oral communication*
- *Ethical understanding and reasoning*
- *Information technology*
- *Analytical thinking*
- *Diverse and multicultural work environments*
- *Reflective thinking*
- *Application of knowledge*
- *Interpersonal relations and teamwork*

Each chapter of CKR has been specifically designed to integrate and advance your learning of these intangible soft skills. End-of-chapter exercises—Test Your Comprehension, Apply Your Understanding, and globalEDGE Internet Exercises—help you develop these critical skills.

CKR Tangible Process Tools™

Understanding and applying these tools will help you increase your effectiveness in the workplace. "Tangible Process Tools" appear at the end of selected chapters and consist of process tools that will enable you to address real-world challenges often encountered by managers in the workplace. Some of the tools consist of helpful checklists. Others will present a real-world management scenario, methodology, and the resources to solve it. Please visit the Pearson MyLab Management at www.pearson.com/mylab/management to access the "CKR: Travel Abroad Preparation Checklist™," which will assist you in gathering necessary documents, as well as tools and aids for health care, telecommunications, funds, customs, and other requirements for visiting different countries.

For a more detailed treatment of this topic, visit the Pearson MyLab Management website (www.pearson.com/mylab/management).

physical and intellectual assets, including products, services, capital, technology, know-how, and labor. In this book, we are mainly concerned with the international business activities of the individual firm.

International business is characterized by six major dimensions, as shown in Exhibit 1.1. Firms' growing international activities give rise to the globalization of markets. As they venture abroad, firms undertake international trade and investment activities. In doing so, they encounter various types of risks and challenges that occur to a lesser degree, or not at all, in the home country. Participants in international business are diverse and include firms, distribution channel intermediaries, and facilitators. When they expand abroad, firms employ such international market entry strategies as exporting and direct investment. We explore each of the six dimensions in detail in this chapter.

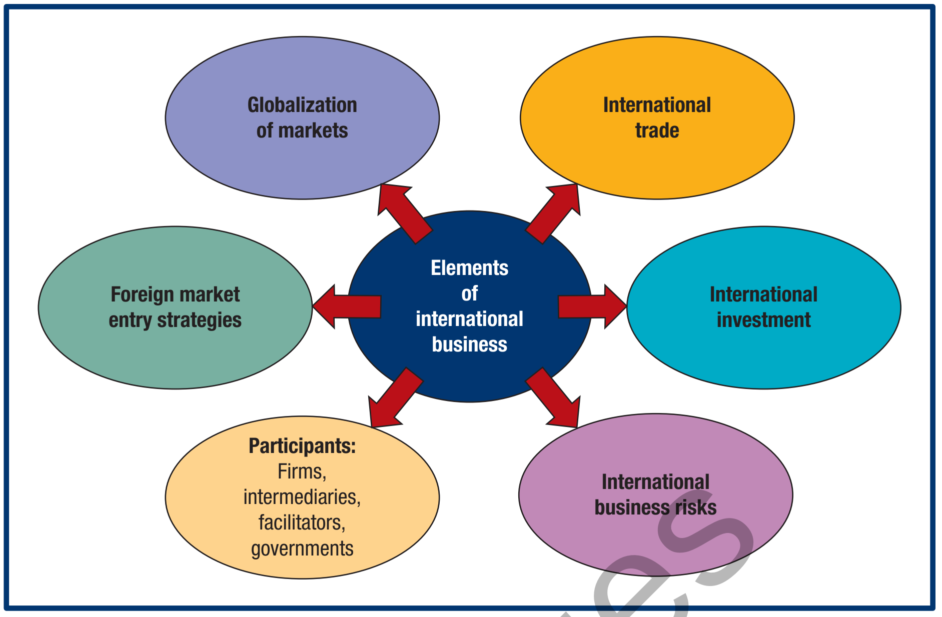
Although trading across borders has been around for centuries, contemporary international business has gained much momentum and complexity over the past few decades. Firms seek international market opportunities more than ever before. Like Instagram, international business affects the everyday lives of people worldwide. Daily activities such as shopping, listening to music, watching a movie, or surfing the Internet involve interactions and transactions that connect you to the global economy. Internationalization of business gives you access to products and services from around the world. It profoundly affects your quality of life and economic well-being.

Online platforms such as Amazon, Alibaba, Facebook, and Instagram are all expressions of ongoing economic integration and growing interdependency of countries worldwide, known as the **globalization of markets**. Globalization is a macro-trend of intense economic interconnectedness among the nations of the world. A parallel trend is the ongoing internationalization of countless firms and dramatic growth in the volume and variety of cross-border transactions in

Globalization of markets
Ongoing economic integration and growing interdependency of *countries* worldwide.

EXHIBIT 1.1

Elements of International Business



Internationalization The tendency of *companies* to deepen their international business activities systematically.

goods, services, and capital flows. **Internationalization** refers to the tendency of companies to deepen their international business activities systematically. It has led to widespread diffusion of products, technology, and knowledge worldwide.

Globalization both compels and facilitates firms to expand abroad. Simultaneously, company internationalization has become easier than ever before. A few decades ago, international business was largely the domain of large, multinational firms. Recent developments have created a more level playing field that allows all types of firms to benefit from active participation in international business. In this book, you will read about the international activities of smaller firms and those of large, multinational enterprises. You will learn about companies in the services sector that are internationalizing in such industries as banking, engineering, insurance, and retailing.

The globalization of markets is evident in several related trends.

- *Unprecedented growth of international trade.* In 1960, cross-border trade was modest—about $300 billion per year. Today, it accounts for a substantial proportion of the world economy, with world exports alone amounting to some $16 trillion annually—that is, $16,000,000,000,000!
- *Trade between nations, accompanied by substantial flows of capital, technology, data, and communications.* In 2004, total cross-border bandwidth in digital data transfer and communications was practically zero. Today, total cross-border bandwidth flows now exceed 400,000 gigabits per second. Virtually every type of international transaction now includes a digital component.
- *Development of highly sophisticated global financial systems and mechanisms* that facilitate the cross-border flow of products, money, technology, and knowledge.
- *Greater collaboration among nations* through multilateral agencies such as the World Trade Organization (WTO, www.wto.org) and the International Monetary Fund (IMF, www.imf.org).

Source: McKinsey Global Institute, *Digital Globalization: The New Era of Global Flows* (2016), www.mckinsey.com; UNCTAD, World Investment Report, New York: United Nations (2017), www.unctad.org; World Trade Organization, World Trade Report, Geneva: World Trade Organization (2017), www.wto.org.

What Are the Key Concepts in International Business?

1.1 Describe the key concepts in international business.

International trade describes the exchange of products (merchandise) and services (intangibles) across national borders. Exchange can occur through **exporting**, the sale of products or services to customers located abroad from a base in the home country or a third country. Exchange also can take the form of **importing or global sourcing**—the procurement of products or services from suppliers located abroad for consumption in the home country or a third country. While exporting represents the outbound flow of products and services, importing is an inbound activity. Both finished products and intermediate goods (for example, raw materials and components) can be imported and exported.

International investment refers to the transfer of assets to another country or the acquisition of assets in that country. Economists refer to such assets as *factors of production*; they include capital, technology, managerial talent, and manufacturing infrastructure. Trade implies that products and services cross national borders. By contrast, investment implies that the firm itself crosses borders to secure ownership of assets located abroad.

The two essential types of cross-border investment are international portfolio investment and foreign direct investment. **International portfolio investment** refers to the passive ownership of foreign securities such as stocks and bonds to gain financial returns. It does not entail active management or control over these assets. The foreign investor has a relatively short-term interest in the ownership of these assets.

Foreign direct investment (FDI) is an internationalization strategy in which the firm establishes a physical presence abroad through acquisition of productive assets such as land, plant, equipment, capital, and technology. It is a foreign-market entry strategy that gives investors partial or full ownership of a productive enterprise typically dedicated to manufacturing, marketing, or management activities. Investing such resources abroad is generally for the long term and involves extensive planning.

International trade
Exchange of products and services across national borders, typically through exporting and importing.

Exporting
Sale of products or services to customers located abroad from a base in the home country or a third country.

Importing or global sourcing
Procurement of products or services from suppliers located abroad for consumption in the home country or a third country.

International investment
The transfer of assets to another country or the acquisition of assets in that country.

International portfolio investment
Passive ownership of foreign securities such as stocks and bonds to generate financial returns.

Foreign direct investment (FDI)
An internationalization strategy in which the firm establishes a physical presence abroad through acquisition of productive assets such as capital, technology, labor, land, plant, and equipment.

The Nature of International Trade

Overall, export growth has outpaced the growth of domestic production during the past few decades, illustrating the fast pace of globalization. Exhibit 1.2 contrasts the growth of total world exports with the growth of total world *gross domestic product (GDP)* since 1980. GDP is defined as the total value of products and services produced in a country in the course of a year. As reflected in the exhibit, world trade declined in 2009 due to the global recession, following a 27-year boom. Trade revived and returned to normal levels by 2012. Trade was a key factor in reducing the impact of the global recession.[2] What is remarkable is that throughout most of the

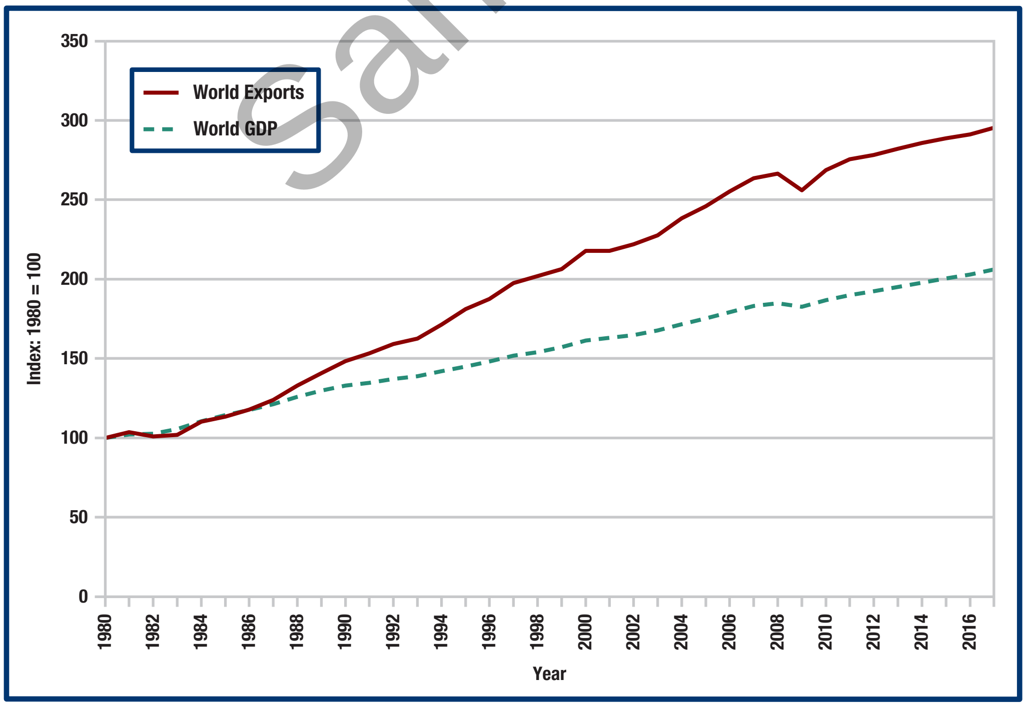


EXHIBIT 1.2

Comparing the Growth Rates of World GDP and World Exports

Source: Based on data from the International Monetary Fund, *World Economic Outlook Database October 2017*, www.imf.org.

past few decades, average annual growth rate in world exports has surpassed that of world GDP by a factor of almost two (5.3 versus 2.8 percent).

Three factors have been especially notable in explaining why trade growth has long outpaced GDP growth. First is the rise of emerging markets during the past three decades. These rapidly developing economies are home to swiftly growing middle-class households possessing substantial disposable income. Second, advanced (or developed) economies such as the United States and the European Union are sourcing many of the products they consume from such low-cost manufacturing locations as China, India, and Mexico. Third, advances in information and transportation technologies, decline of trade barriers, and liberalization of markets all have contributed to rapid growth of trade among nations.

Exhibit 1.3 identifies leading nations in exports of merchandise (and not services). Panel (a) shows the total annual value of merchandise exports and imports in billions of U.S. dollars. Panel (b) shows the annual value of products traded as a percentage of each nation's GDP. Total merchandise trade (exports plus imports) of the countries in panel (a) is nearly $18,000 billion and accounts for about half of world merchandise trade. To get a better sense of the structure of international trade, Exhibit 1.4 presents the world's top trading countries. It reveals that China, the United States, Germany, and Japan are the world's leading international traders. China and the United States are close competitors in total trade, but trade accounts for about 31 percent of China's GDP as opposed to 19 percent for the United States. Merchandise trade is a much larger component of economic activity in countries such as the Netherlands (126 percent) and South Korea (69 percent). These percentages suggest that some countries depend very heavily on international trade relative to the value of all goods and services they produce domestically.

In some cases, countries' total trade surpasses 100 percent of the nation's GDP. How can this be? The answer is that countries such as Singapore, Hong Kong, and the Netherlands are known as entrepôt economies. *Entrepôt* is from the French for "intermediate depot." Such countries import a large volume of products, some of which they process into higher value–added products and some of which they simply re-export to other destinations. They often arise in locations that enjoy especially advantageous access to larger, adjacent markets. For example, Singapore is a major entrepôt for Southeast Asia, e.g., for transshipping petroleum products that it receives from the Middle East. Hong Kong is an entrepôt for China. The Netherlands is an entrepôt for the greater European Union.

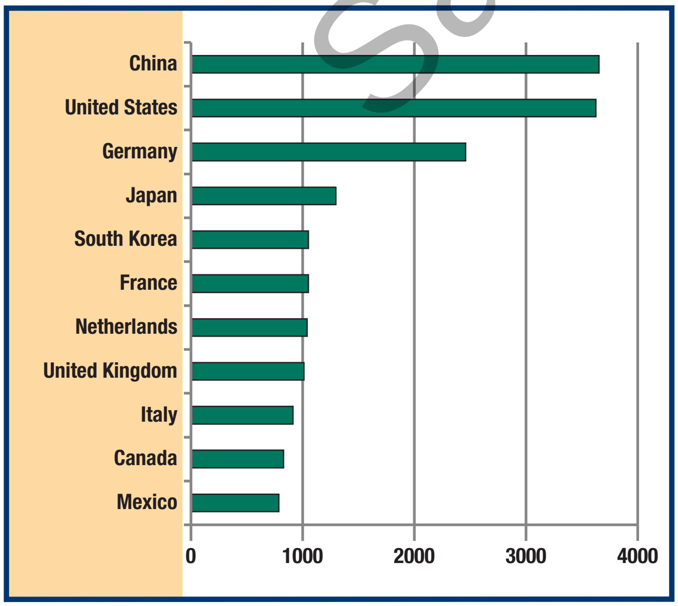
The Nature of International Investment

Of the two types of investment flows—portfolio investment and foreign direct investment—we are concerned primarily with foreign direct investment (FDI) in this text because it is the ultimate form of internationalization and encompasses the widest range of international business

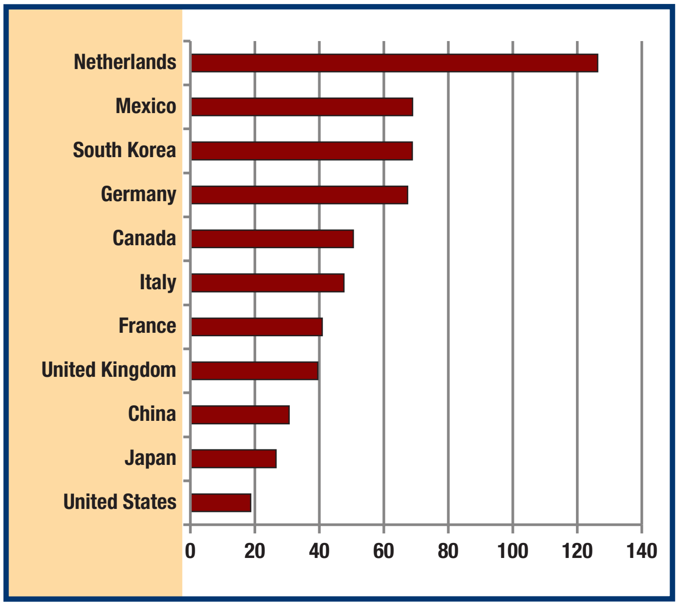
EXHIBIT 1.3

Leading Countries in International Merchandise Trade

Sources: Based on data from the World Bank, *World Development Indicators*, Washington, DC: World Bank (2017), www.worldbank.org; World Trade Organization, *Statistics Database*, Geneva: World Trade Organization (2017), www.wto.org; UNCTAD, *World Investment Report*, New York: United Nations (2017), www.unctad.org.



(a) Total annual value of products trade (exports + imports) in billions of U.S. dollars



(b) Total annual value of products trade (exports + imports) as a percentage of nation's GDP

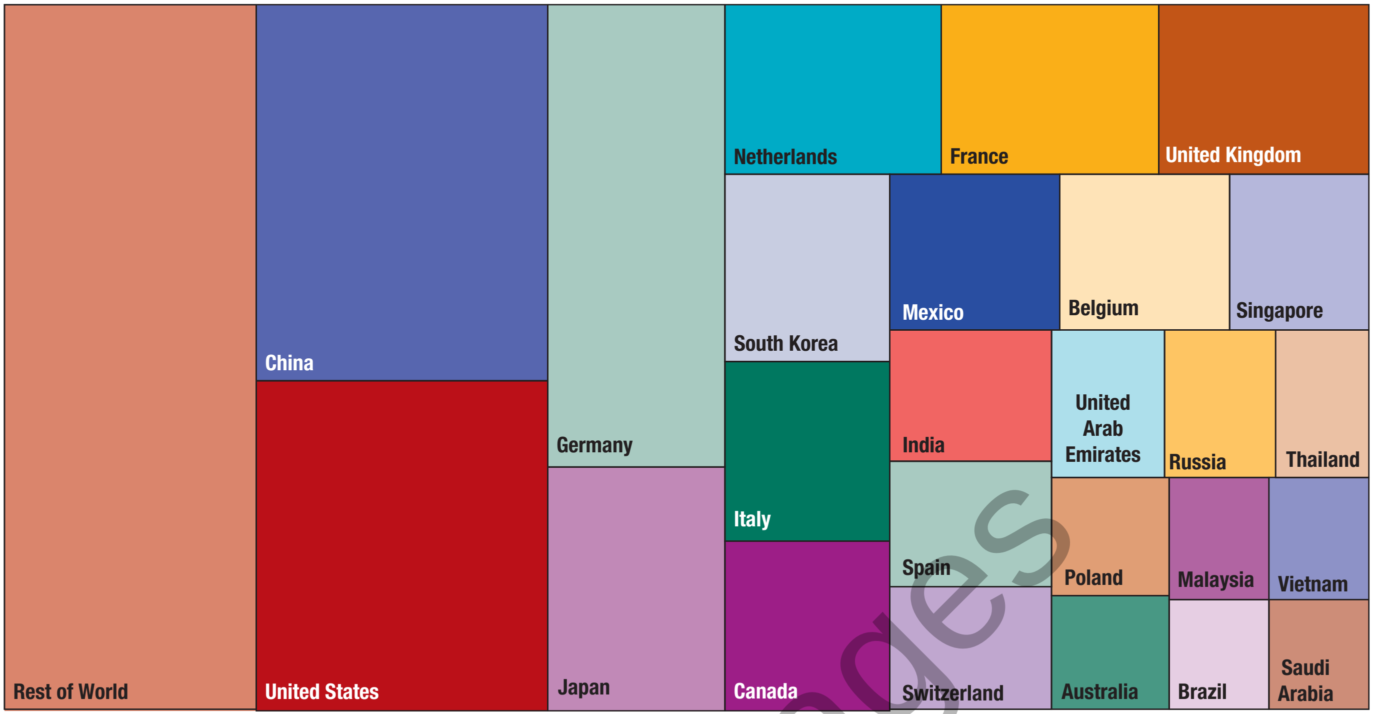


EXHIBIT 1.4

The Top 25 Countries in International Merchandise Trade

Sources: Based on data from the World Bank, *World Development Indicators*, Washington, DC: World Bank (2017), www.worldbank.org; World Trade Organization, *Statistics Database*, Geneva: World Trade Organization (2017), www.wto.org; UNCTAD, *World Investment Report*, New York: United Nations (2017), www.unctad.org.
Note: The exhibit reflects the value of each country's combined exports and imports as a percentage of total world trade.

involvement. FDI is the foreign entry strategy practiced by the most internationally active firms. Companies usually undertake FDI for the long term and retain partial or complete ownership of the assets they acquire. In the process, the firm establishes a new legal business entity in the host country, subject to the regulations of the host government.

FDI is especially common among large, resourceful companies with substantial international operations. For example, many European and U.S. firms have invested in China, India, and Brazil to establish plants to manufacture or assemble products, taking advantage of low-cost labor or natural resources in these countries. At the same time, companies from these rapidly developing economies have begun to invest in Western markets. In 2012, for example, the Haier Group from China acquired New Zealand's appliance manufacturing company Fisher & Paykel. Then, in 2016, Haier purchased General Electric's appliance division for $5.4 billion.[3]

Exhibit 1.5 illustrates the dramatic growth of FDI since the 1980s. The exhibit reveals that the dollar volume of FDI has grown immensely since the 1980s, especially in developed (advanced) economies such as Japan, Europe, and North America. FDI inflows to the developing economies began to surpass those to the advanced economies in about 2010. FDI inflows were interrupted in 2001 as investors panicked following the September 11 terrorist attacks in the United States. The inflows were interrupted again in 2008 by the global recession but then rose sharply in subsequent years. These dips underscore the importance of maintaining stability in the world economy. Despite these setbacks, the overall trend remains strong and growing over time. Particularly significant is the growth of FDI into developing economies, much of which results from their need for modern industrial infrastructure. It reflects the importance of developing economies and emerging markets as target markets and sourcing bases.

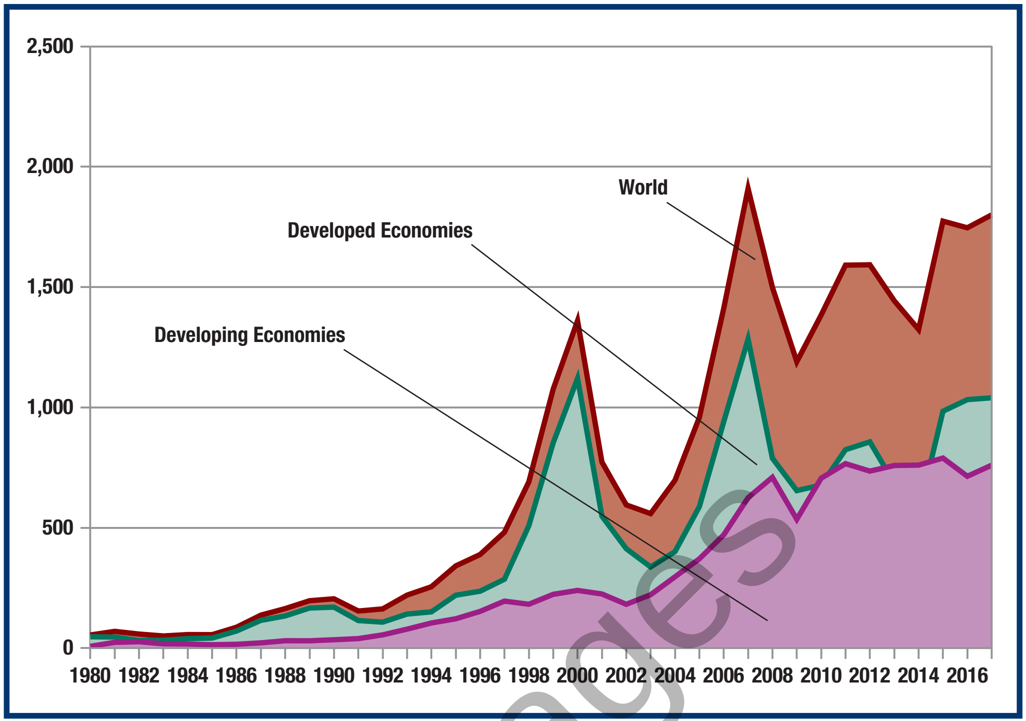
Services as Well as Products

Historically, international trade and investment were mainly the domain of companies that make and sell products—tangible merchandise such as clothing, computers, and motor vehicles. Today, firms that produce *services* (intangibles) are key international business players as well. Services are deeds, performances, or efforts performed directly by people working in banks, consulting firms, hotels, construction companies, retailers, and countless other firms in the services sector. International trade in services accounts for about one-quarter of all international trade and is growing rapidly.

EXHIBIT 1.5

Foreign Direct Investment (FDI) Inflows into World Regions (in Billions of U.S. Dollars per Year)

Sources: UNCTAD, *UNCTADSTAT Database*, Inward FDI Flows, Annual (2017); OECD, *FDI Flows* (2017), https://data.oecd.org/fdi/fdi-flows.htm; World Bank, *Foreign Direct Investment, Net Inflows (BoP, Current US$)* (2017), http://data.worldbank.org.

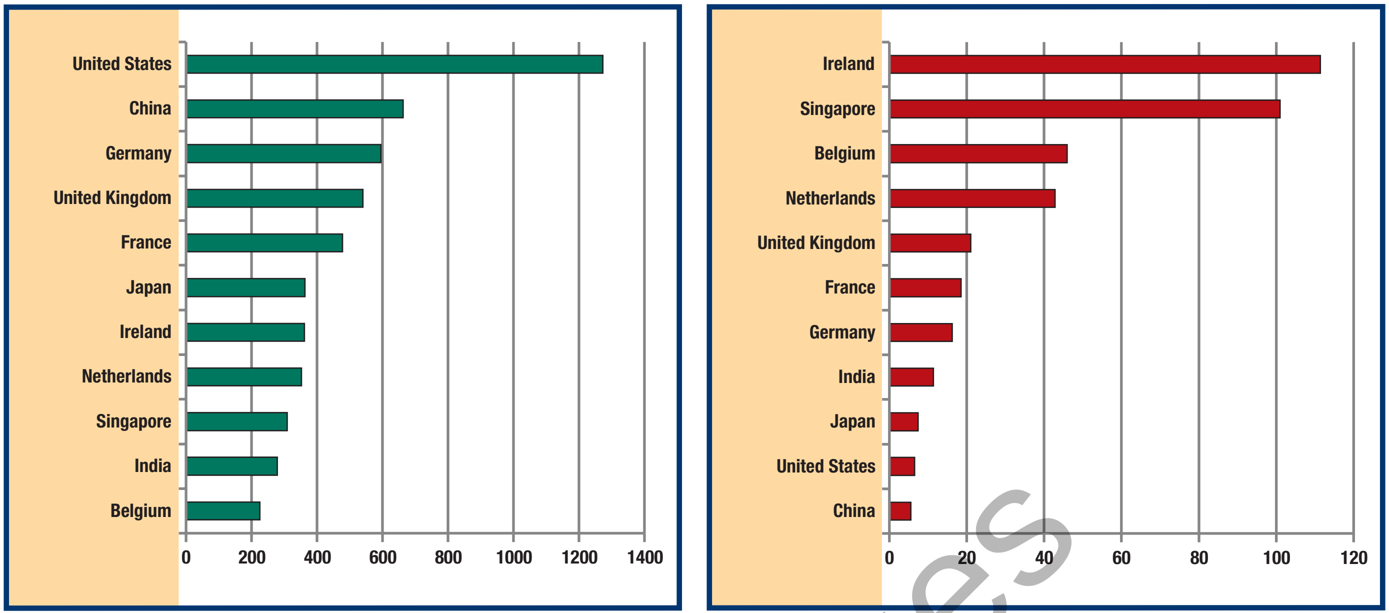


Instagram is a leading services firm that has internationalized rapidly. If you own a house, your mortgage might be underwritten by the Dutch bank ABN Amro. Perhaps you eat lunch in a cafeteria owned by the French firm Sodexho, which manages the food and beverage operations on numerous university campuses. Recently, Riot Games expanded its operations into Germany, Ireland, China, Turkey, and numerous other countries to meet rapidly rising demand for its online video games. Demand for the firm's *League of Legends* game has spread rapidly, prompting the need to establish offices at gamer locations worldwide. The 2017 League of Legends World Championship attracted fans from around the world for two weeks of competition and more than 100 hours of live content broadcast in more than 20 languages.[4]

Exhibit 1.6 identifies countries leading in total international services trade. Panel (a) shows the total annual value of services exports and imports in billions of U.S. dollars. Panel (b) shows the total annual value of services trade as a percentage of each nation's GDP. As with products, larger advanced economies account for most world services trade. This is expected because services typically comprise more than two-thirds of the GDPs of these countries. Recently, the emerging markets of China and India have gained strong reputations in this area. Ireland has emerged as the leader in world services trade as a percentage of GDP. Compare the value of merchandise trade in Exhibit 1.3 with the value of services trade in Exhibit 1.6 for each country. Although services trade is growing rapidly, the value of merchandise trade is still much larger. One reason is that services face greater challenges and barriers in cross-border trade than merchandise goods.

Not all services can be exported. Examples are repair work done on your bicycle or the experience of eating a meal in a restaurant. Although some services can be digitized and moved across borders, most service providers can operate internationally only by establishing a physical presence abroad through direct investment. Firms invest abroad to set up restaurants, retail stores, and other physical facilities through which they sell billions of dollars' worth of services every year.

There are numerous industries in the services sector with strong potential for internationalization. The giant Internet retailer eBay earned about $9 billion in 2017, of which more than 50 percent came from international sales. The company expects that most future revenue growth will come from abroad. When developing its business in India, eBay acquired the Mumbai-based e-retailer Baazee, which followed eBay's expansion into China, Korea, and Europe. Vendors in Russia now constitute a big portion of eBay's business.[5]



(a) Total annual value of services trade (exports + imports) in billions of U.S. dollars

(b) Total annual value of services trade (exports + imports) as a percentage of nation's GDP

EXHIBIT 1.6

Countries Leading in International Services Trade

Sources: Based on data from the World Bank, *World Development Indicators*, Washington, DC: World Bank (2017), www.worldbank.org; World Trade Organization, *Statistics Database*, Geneva: World Trade Organization (2017), www.wto.org; UNCTAD, "International Trade in Goods and Services," *UNCTADSTAT* (2017), www.unctad.org.

A recent development in the services sector is the rise of the *sharing economy*, in which firms and individuals undertake online peer-to-peer exchange of all types of goods and services. Uber and Airbnb are examples of a growing number of global firms that allow people to borrow or rent assets from others. Uber lets people bypass taxis to go places, and Airbnb allows them to book rooms in private homes around the world. Uber is based in San Francisco and operates in more than 600 cities worldwide. The firm has faced controversy in various nations, as municipal authorities deal with legal issues related to driver qualifications, licensing, and fares. In Australia, people use Freelancer to hire needed workers. Streetbank is a UK-based firm that helps neighbors share tools, appliances, and other household items and has expanded to Australia, Canada, and numerous other countries.[6]

Exhibit 1.7 illustrates the diversity of service industries that are internationalizing, extending their reach beyond the countries where they are based. If you are considering a career in international business, keep these industries in mind.

The International Financial Services Sector

International banking and financial services are among the most internationally active service industries. Explosive growth of investment and financial flows since about 2000 has led to the emergence of capital markets worldwide. It resulted from two main factors: the internationalization of banks and the massive flow of money across national borders into pension funds and portfolio investments

In the developing economies, meanwhile, banks and other financial institutions have fostered economic activity by increasing the availability of local investment capital, which stimulates the development of financial markets and encourages locals to save money.

International banking is primarily conducted by very large banks. Governments around the world have imposed many new regulations in the banking industry following the global financial crisis that arose in 2007–2008. Consumers and local businesses generally prefer to deal with local banks, obtaining financial services from homegrown "brick-and-mortar" branches and personnel who understand local conditions. Smaller, local banks usually work with larger, international banks to process cross-national payments, exchange currencies, and fulfill other international functions. Banks in Asia and North America have seen the most growth in recent years in their home markets. China is now home to three of the world's five largest banks, specifically ICBC, China Construction Bank, and the Agricultural Bank of China. London long has been the banking hub of Europe, a status bolstered by the United Kingdom's membership in the European Union (EU). However, the 2016 vote to exit the EU may reduce London's competitive advantages in banking and may result in a growing role for Dublin, Frankfurt, and Paris as leading European banking centers.[7]

EXHIBIT 1.7

Service Sector Industries That Are Rapidly Internationalizing

Source: Based on International Trade Administration, *Service Industries* (Washington, DC: U.S. Department of Commerce, 2018).

Industry	*Representative Activities*	*Representative Companies*
Architectural, construction, and engineering	Construction, power utilities, design, engineering services, for airports, hospitals, dams	ABB, Bechtel Group, Kajima, Philip Holzman, Skanska AB
Banking, finance, and insurance	Banks, insurance, risk evaluation, management	Bank of America, CIGNA, Barclays, HSBC, Ernst & Young
Education, training, and publishing	Management training, technical training, language training	Berlitz, Kumon Math & Reading Centers, NOVA, Pearson, Elsevier
Entertainment	Movies, recorded music, Internet-based entertainment	Time Warner, Sony, Virgin, MGM
Information services	E-commerce, e-mail, funds transfer, data interchange, data processing, computer services	Infosys, Google, Hitachi, Qualcomm, Cisco
Professional business services	Accounting, advertising, legal, management consulting	Leo Burnett, EYLaw, McKinsey, A.T. Kearney, Booz Allen Hamilton
Transportation	Aviation, ocean shipping, railroads, trucking, airports	Maersk, Santa Fe, Port Authority of New Jersey, SNCF (French railroads)
Travel and tourism	Transportation, lodging, food and beverage, aircraft travel, ocean carriers, railways	Carlson Wagonlit, Marriott, British Airways

1.2 Understand how international business differs from domestic business.

How Does International Business Differ from Domestic Business?

Firms operate in countries characterized by distinctive economic, cultural, and political conditions. For example, the economic environment of Colombia differs sharply from that of Canada, the legal environment of Saudi Arabia does not resemble that of Japan, and the cultural environment of China is very distinct from that of Kenya. Not only does the firm find itself in unfamiliar surroundings, it encounters many *uncontrollable variables*—factors over which management has little control. These factors introduce new or elevated business risks. Distinctive conditions in each country require firms to adapt their products and approaches from country to country.

The Four Risks in Internationalization

Globalization is not without risks. When companies undertake international business, they are routinely exposed to four major types of risk, as illustrated in Exhibit 1.8. These are cross-cultural risk, country risk, currency risk, and commercial risk. The firm must manage these risks to avoid performance breakdowns, reputation loss, or other adverse consequences.

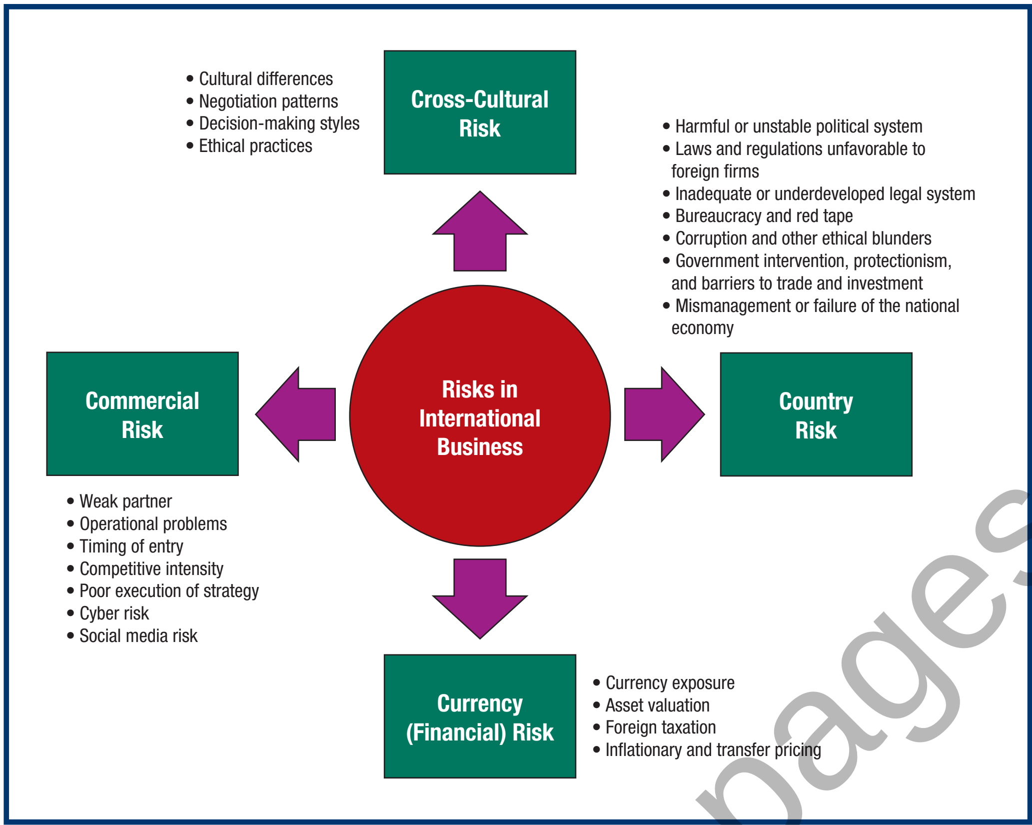
Cross-cultural risk
A situation or event in which a cultural misunderstanding puts some human value at stake.

Cross-cultural risk occurs when a cultural misunderstanding puts some human value at stake. Cross-cultural risk arises from differences in language, lifestyles, mind-sets, customs, and religion. Values unique to a culture tend to be long-lasting and transmitted from one generation to the next. Values influence the mind-set and work style of employees and the shopping patterns of buyers. Foreign customer characteristics can differ significantly from those of buyers in the home market.

Language is a critical dimension of culture. In addition to facilitating communication, language is a window on people's value systems and living conditions. For example, Inuit (Eskimo) languages have various words for snow, whereas the South American Aztecs used the same basic word stem for snow, ice, and cold. When translating from one language to another, it is often

EXHIBIT 1.8

The Four Risks of International Business



difficult to find words that convey the same meanings. For example, a one-word equivalent to *aftertaste* does not exist in many languages. Such challenges impede effective communication and cause misunderstandings. Miscommunication due to cultural differences gives rise to inappropriate business strategies and ineffective relations with customers. Cross-cultural risk most often occurs in encounters in foreign countries. However, the risk also can occur domestically, as when management meets with customers or business associates who visit company headquarters from abroad.

Country risk
Potentially adverse effects on company operations and profitability caused by developments in the political, legal, and economic environment in a foreign country.

Country risk (also known as *political risk*) refers to the potentially adverse effects on company operations and profitability caused by developments in the political, legal, and economic environment in a foreign country. Country risk includes the possibility of foreign government intervention in firms' business activities. For example, governments may restrict access to markets, impose bureaucratic procedures on business transactions, and limit the amount of income that firms can take home from foreign operations. The degree of government intervention in commercial activities varies from country to country. Singapore and Ireland are characterized by substantial economic freedom—that is, a fairly liberal economic environment. By contrast, the Chinese and Russian governments regularly intervene in business affairs.[8] Country risk also includes laws and regulations that potentially hinder company operations and performance. Critical legal dimensions include intellectual property protection, product liability, and taxation policies. Nations also experience potentially harmful economic conditions, often due to high inflation, national debt, and unbalanced international trade.

Currency risk
Risk of adverse fluctuations in exchange rates.

Currency risk (also known as *financial risk*) refers to the risk of adverse fluctuations in exchange rates. Fluctuation is common for *exchange rates*—the value of one currency in terms of another. Currency risk arises because international transactions are often conducted in more than one national currency. For example, when U.S. fruit processor Graceland Fruit Inc. exports dried cherries to Japan, it is normally paid in Japanese yen.

When currencies fluctuate significantly, the value of the firm's earnings can be reduced. The cost of importing parts or components used in manufacturing finished products can increase dramatically if the value of the currency in which the imports are denominated rises sharply. Inflation and other harmful economic conditions experienced in one country may have immediate consequences for exchange rates due to the interconnectedness of national economies.

Rising value of the U.S. dollar during 2015 and 2016 relative to most currencies has cut into revenues of U.S. multinational firms such as Apple, Caterpillar, and Pfizer. Procter and Gamble's Duracell battery business experienced a 31 percent decline in profits due to weaker currencies in its foreign markets.[9]

Commercial risk
Firms' potential loss or failure from poorly conceived or executed business strategies, tactics, or procedures.

Commercial risk is encountered by all firms, whether operating domestically or internationally. It refers to the firm's potential loss or failure from poorly conceived or executed business strategies, tactics, or procedures. Managers may make poor choices in such areas as the selection of business partners, timing of market entry, pricing, creation of product features, and promotional themes. Although such failures also exist in domestic business, the consequences are usually costlier when committed abroad. For example, in domestic business, a company might terminate a poorly performing distributor simply with advance notice. In foreign markets, however, terminating business partners can be costly due to regulations that protect local firms. Marketing inferior or harmful products, falling short of customer expectations, or failing to provide adequate customer service can also damage the firm's reputation and profitability. Furthermore, commercial risk is often affected by currency risk because fluctuating exchange rates can affect various types of business deals.

In recent years, two types of commercial risk have become an important source of concern for firms—cyber risk and social media risk. Both are the result of vulnerabilities in affected organizations. *Cyber risk* results from attacks on, or breaches of, the firm's information systems. Cyber risk arises from failures in the firm's information technology systems. Recent data breaches have afflicted such companies as eBay, Uber, Tesco Bank, and Sony Playstation Network. Even government organizations are vulnerable to data breaches.[10]

Social media risk refers to rapid and widespread circulation of unfavorable "buzz" about the firm. Such negative news is accelerated and amplified by social media. In 2015, for example, regulators announced that Volkswagen had installed software in its vehicles aimed at evading environmental regulations intended to reduce engine pollutants. When the scandal went viral on Twitter, Facebook, and other sites, Volkswagen's brand image was damaged. By late 2015, Volkswagen's buzz score had descended to its lowest point in several years. A single negative post about corporate events can travel globally at lightning speed and damage stakeholder trust in the firm's brand even before management has time to react.[11]

The four types of international business risks are omnipresent; the firm may encounter them around every corner. Some international risks, such as global financial disruptions, are extremely challenging. In Greece, the nation's debt crisis has lingered for several years and affects not only the European Union but creditors elsewhere.[12]

Although risk cannot be avoided, it can be anticipated and managed. Experienced international firms constantly assess their environments and conduct research to anticipate potential risks, understand their implications, and take proactive action to reduce their effects. This book is dedicated to providing you, the future manager, with a solid understanding of these risks as well as managerial skills and strategies to counter them effectively.

1.3 Identify major participants in international business.

Who Participates in International Business?

International business requires numerous organizations, with varying motives, to work together as a coordinated team, contributing different types of expertise and inputs. There are four major categories of participants.

Focal firm
The initiator of an international business transaction, which conceives, designs, and produces offerings intended for consumption by customers worldwide. Focal firms are primarily MNEs and SMEs.

- A **focal firm** is the initiator of an international business transaction; it conceives, designs, and produces offerings intended for consumption by customers worldwide. Focal firms take center stage in international business. They are primarily large multinational enterprises (MNEs; also known as multinational corporations, or MNCs) and small and medium-sized enterprises (SMEs). Some are privately owned companies; others are public, stock-held firms; and still others are state enterprises owned by governments. Some focal firms are manufacturing businesses; others are in the service sector.

- A **distribution channel intermediary** is a specialist firm that provides various logistics and marketing services for focal firms as part of international supply chains, both in the focal firm's home country and abroad. Typical intermediaries include independent distributors and sales representatives, usually located in foreign markets where they provide distribution and marketing services to focal firms on a contractual basis.
- A **facilitator** is a firm or an individual with special expertise in banking, legal advice, customs clearance, or related support services that helps focal firms perform international business transactions. Facilitators include logistics service providers, freight forwarders, banks, and other support firms that assist focal firms in performing specific functions. A **freight forwarder** is a specialized logistics service provider that arranges international shipping on behalf of exporting firms, much like a travel agent for cargo. Facilitators are found in both the home country and abroad.
- *Governments*, or the public sector, are also active in international business as suppliers, buyers, and regulators. **State-owned enterprises (SOEs)** account for a substantial portion of economic value added in many countries, even rapidly liberalizing emerging markets such as Russia, China, and Brazil. Governments in advanced economies such as France, Australia, and Sweden have significant ownership of companies in telecommunications, banking, and natural resources. The recent global financial crisis led governments to step up their involvement in business, especially as regulators.

Distribution channel intermediary
A specialist firm that provides various logistics and marketing services for focal firms as part of international supply chains, both in the home country and abroad.

Facilitator
A firm or an individual with special expertise in banking, legal advice, customs clearance, or related support services that assists focal firms in the performance of international business transactions.

Freight forwarder
A specialized logistics service provider that arranges international shipping on behalf of exporting firms.

State-owned enterprise (SOE)
A company that is founded and owned by a government in order to undertake commercial activities on the government's behalf.

The activities of firms, intermediaries, and facilitators in international business overlap to some degree. The focal firm performs certain activities internally and delegates other functions to intermediaries and facilitators when their special expertise is needed. In other words, the focal firm becomes a client of intermediaries and facilitators who provide services on a contractual basis.

Whereas focal firms, intermediaries, and facilitators represent the supply side of international business transactions, customers or buyers make up the demand side. Customers consist of:

- Individual *consumers and households*.
- *Retailers*—businesses that purchase finished goods for the purpose of resale.
- *Organizational buyers*—businesses, institutions, and governments that purchase goods and services as inputs to a production process or as supplies needed to run a business or organization. Governments and nonprofit organizations such as CARE (www.care.org) and UNICEF (www.unicef.org) also often constitute important customers around the world.

Focal Firms in International Business

Imagine a typical theatrical production. It has script writers, stage managers, lighting technicians, musicians, set directors, business managers, and publicity staff in addition to performing actors. Each participant contributes in different ways, and much coordination is required among them. Advanced planning, preparation, timeliness, and synchronization are critical to ultimate success. In the same way, international business transactions require the participation of many specialist organizations, exact timing, and precision.

Focal firms are the most prominent international players. They include well-known multinational enterprises and small and medium-sized exporting firms as well as contemporary organizations such as the born global firms. Let's learn more about each of these key actors in international business.

A **multinational enterprise (MNE)** is a large company with substantial resources that performs various business activities through a network of subsidiaries and affiliates located in multiple countries. Leading MNEs are listed in the *Fortune Global 500* (http://fortune.com). Examples include well-known companies such as Nestlé, Sony, Citibank, Unilever, Nokia, Ford, Barclays, DHL, Four Seasons Hotels, and Shell Oil. In recent years, the largest MNEs have been firms in the oil industry (such as Exxon-Mobil and Royal Dutch Shell) and the automotive industry (General Motors and Honda) as well as in retailing (Walmart).[13]

Multinational enterprise (MNE)
A large company with substantial resources that performs various business activities through a network of subsidiaries and affiliates located in multiple countries.

Although MNEs employ a range of foreign market entry strategies, they are best known for their foreign direct investment (FDI) activities. They operate in multiple countries, especially in Asia, Europe, and North America, by setting up production plants, marketing subsidiaries, and regional headquarters. MNEs such as Exxon, Honda, and Coca-Cola derive much of their total

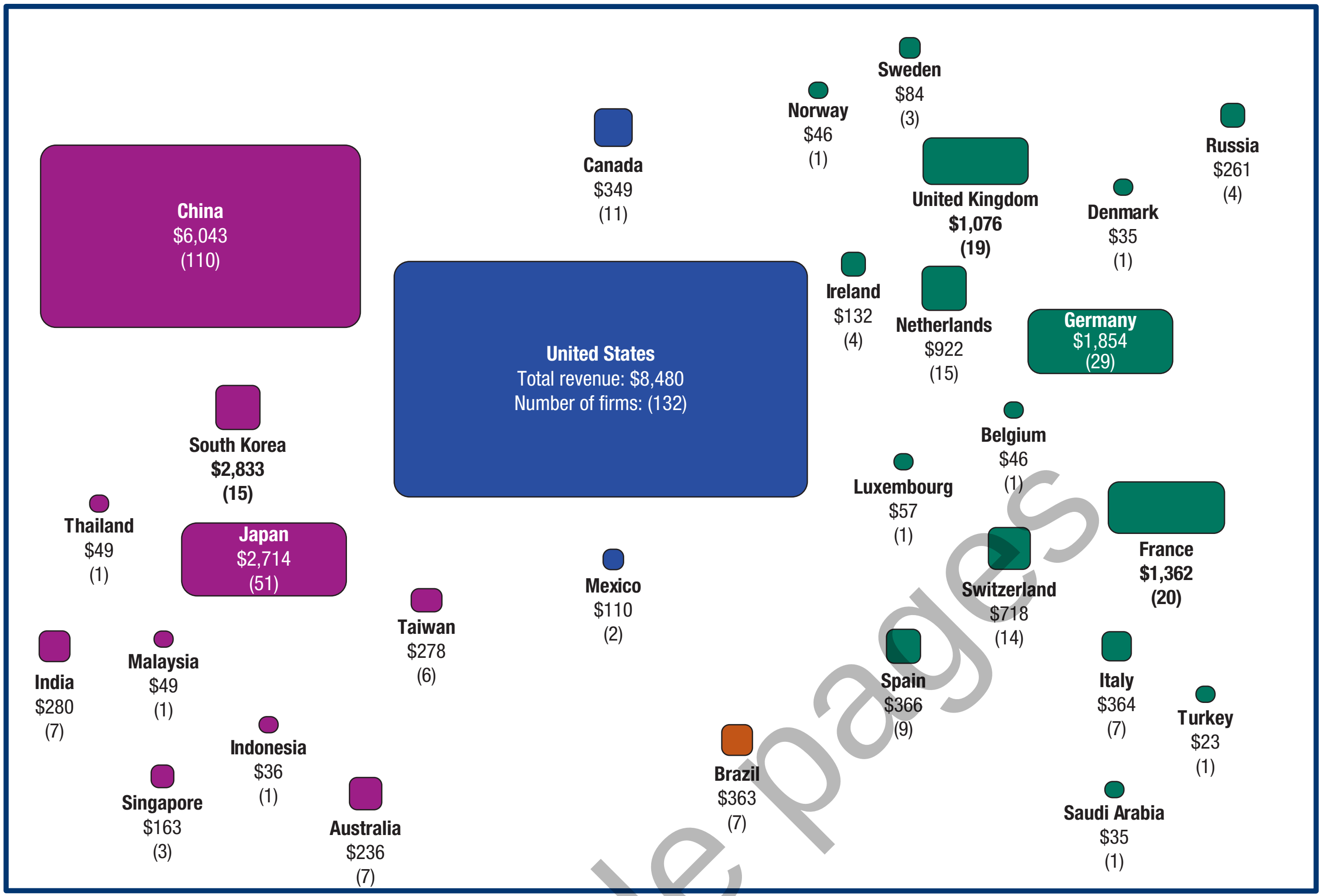


EXHIBIT 1.9

Geographic Distribution of the Headquarters of the World's 500 Largest MNEs

Sources: Scott Decarlo, "Global 500," *Fortune* (2017), http://fortune.com, pp. 18–19; *Fortune*, "Global 500," Special Section, July 21, 2014, pp. F1–F8.

Note: The exhibit shows country name, total revenues of Global 500 firms in U.S. dollars, and total number of Global 500 firms.

sales and profits, often more than half, from cross-border operations. Although there were fewer than 7,500 MNEs worldwide in 1970, today there are at least 75,000, a tenfold increase.[14]

Exhibit 1.9 displays the geographic distribution of the world's largest MNEs, drawn from *Fortune*'s Global 500 list. These firms are concentrated in the advanced economies. The United States was home to 132 of the top 500 MNEs in 2017, a number that has declined over time as firms from other countries increase in size. China has the second most MNEs (110 firms), and Europe is home to many top MNEs: Germany (29 firms), France (20 firms), and the United Kingdom (19 firms).[15]

In recent years, large MNEs have begun to appear in emerging market countries, such as China, Mexico, and Russia. China currently hosts 110 of the top 500 MNEs, a number that has increased from only 20 countries in the past decade. Nearly all of China's top firms are state enterprises—wholly or partly owned by the Chinese government—which provides them substantial advantages.[16]

The new global challenge firms from emerging markets are fast becoming key contenders in world markets. For example, the Mexican firm Cemex is one of the world's largest cement producers; in Russia, Lukoil has big ambitions in the global energy sector; and China Mobile dominates the cell phone industry in Asia. These companies make best use of home–country natural resources and low-cost labor to succeed in world markets. Thousands of firms from emerging markets have big global dreams and pose competitive challenges to companies from the advanced economies.[17]

Small and medium-sized enterprise (SME)
A company with 500 or fewer employees (as defined in Canada and the United States).

Small and Medium-Sized Enterprises

Another type of focal firm that initiates cross-border business transactions is the SME. As defined in Canada and the United States, **small and medium-sized enterprises (SMEs)** are manufacturers or service providers with fewer than 500 employees. (In the European Union and numerous other countries, they are defined as having fewer than 250 employees.) SMEs now make up the majority of companies active in international business. Nearly all firms, including large MNEs, started out small. Compared to large multinationals, SMEs can be more flexible and quicker to respond to global business opportunities. They are usually less bureaucratic, more adaptable, and more entrepreneurial and often sustain entrepreneurship and innovation in national economies.

Being smaller organizations, SMEs are constrained by limited financial and human resources. This explains why they usually choose exporting as their main strategy for entering foreign markets. Their limited resources prevent them from undertaking FDI, an expensive entry mode. As their operations grow, some gradually establish company-owned sales offices or subsidiaries in key target markets.

Due to their smaller size, SMEs often target specialized products to market niches too small to interest large MNEs. SMEs owe much of their international success to support provided by intermediaries and facilitators in foreign markets and to globe-spanning logistics specialists such as FedEx and DHL. Smaller firms also rely on information and communications technologies that allow them to identify global market niches and efficiently serve specialized buyer needs. SMEs are gaining equal footing with large multinationals in marketing sophisticated products around the world.

Born Global Firms

One type of contemporary international SME is the **born global firm**, a young entrepreneurial company that initiates international business activity very early in its evolution, moving rapidly into foreign markets. Despite the scarce resources typical of most small businesses, born globals usually internationalize within three years of their founding and may export to 20 or more countries, generating more than 25 percent of their sales from abroad.

Born global firm
A young entrepreneurial company that initiates international business activity early in its evolution, moving rapidly into foreign markets.

One example is Logitech (www.logitech.com), a born global firm based in Switzerland specializing in accessories for mobile phones and personal computers. The firm is well known as a worldwide leader in mice and keyboards. Within a few years of founding, Logitech expanded it sales to countries around Asia, Europe, and North America. Today Logitech has more than 7,000 employees in some 30 countries.[18]

The born global phenomenon represents a new reality in international business. In countries like Australia, Denmark, Ireland, and the United States, born globals account for a substantial proportion of national exports. They use the Internet and communications technologies to facilitate early and efficient international operations. In many cases, born globals offer leading-edge products with strong potential to generate international sales.

The emergence of born globals is associated with *international entrepreneurship*, in which innovative, smaller firms pursue business opportunities everywhere, regardless of national borders. Communications and transportation technologies, falling trade barriers, and the emergence of niche markets worldwide have increased the ability of contemporary firms to view the whole world as their marketplace. Entrepreneurial managers are creative, proactive, and comfortable dealing with risk. They are usually quick to adapt company strategies as circumstances evolve. The widespread emergence of born globals implies that any firm, regardless of size or experience, can succeed in international business.[19]

Source: Iakov Filimonov/123rf

Born global firms are international from their founding. Vix Technology is an Australian born global that makes fare management equipment for public transit systems worldwide.

Governments and Nongovernmental Organizations

In addition to profit-seeking focal firms, governments are central participants in international trade and investment. Their role is so important that we

Source: Oksana Kuzmina/123rf

The British Wellcome Trust funds nongovernmental organizations (NGOs) and research initiatives to work in collaboration with private businesses to develop remedies for diseases in Africa and other less developed areas.

devote later chapters to government intervention, political systems, and other government-related topics. In addition, numerous *nonprofit organizations* conduct cross-border activities, including charitable groups and *nongovernmental organizations (NGOs)*. They work on behalf of special causes, such as education, research, health care, human development, and the natural environment, operating internationally either to conduct their activities or to raise funds. Examples of nonprofit organizations include the Bill and Melinda Gates Foundation and the British Wellcome Trust, both of which support health and educational initiatives. CARE is an international nonprofit organization dedicated to reducing poverty. Many MNEs operate charitable foundations that support various initiatives. GlaxoSmithKline (GSK), the giant pharmaceutical firm, operates several small, country-based foundations in Canada, France, Italy, Romania, Spain, and the United States.

1.4 Describe why firms internationalize.

Why Do Firms Internationalize?

There are multiple motives for international expansion, some strategic in nature, others reactive. An example of a strategic, or proactive, motive is to tap foreign market opportunities or to acquire new knowledge. An example of a reactive motive is the need to serve a key customer that has expanded abroad. Specific motivations include the following:

- *Seek opportunities for growth through market diversification.* Substantial market potential exists abroad. Many firms—for example, Facebook, Gillette, Siemens, Sony, and Biogen—derive more than half of their sales from international markets.[20] In addition to offering sales opportunities that often cannot be matched at home, foreign markets can extend the marketable life of products or services that have reached maturity in the home market. One example is the internationalization of automatic teller machines (ATMs). The first ATMs were installed in London by Barclays Bank. The machines were adopted next in the United States and Japan. As growth of ATMs began to slow in these countries, they were marketed throughout the rest of the world. There were more than 3 million ATMs worldwide in 2017; a new one is installed somewhere every few minutes.
- *Earn higher margins and profits.* For many types of products and services, market growth in mature economies is sluggish or flat. Competition is often intense, forcing firms to get by on slim profit margins. By contrast, most foreign markets may be underserved (typical of high-growth emerging markets) or not served at all (typical of developing economies). Less intense competition, combined with strong market demand, implies that companies can command higher margins for their offerings. For example, compared to their home markets, bathroom fixture manufacturers American Standard and Toto (of Japan) have found more favorable competitive environments in rapidly industrializing countries such as Indonesia, Mexico, and Vietnam. Just imagine the demand for bathroom fixtures in the thousands of office buildings and residential complexes going up from Taiwan to Turkey!
- *Gain new ideas about products, services, and business methods.* International markets are characterized by tough competitors and demanding customers with various needs. Unique foreign environments expose firms to new ideas for products, processes, and business methods. The experience of doing business abroad helps firms acquire new knowledge for improving organizational effectiveness and efficiency. For example, Japan's Toyota refined just-in-time inventory techniques, which other manufacturers and foreign suppliers around the world then applied to manufacturing in their own countries.

- *Serve key customers better that have relocated abroad.* In a global economy, many firms internationalize to better serve clients that have moved into foreign markets. For example, when Nissan opened its first factory in the United Kingdom, many Japanese auto parts suppliers followed, establishing their own operations there.
- *Be closer to supply sources, benefit from global sourcing advantages, or gain flexibility in product sourcing.* Companies in extractive industries such as petroleum, mining, and forestry establish international operations where raw materials are located. One example is the aluminum producer Alcoa, which established operations in Brazil, Guinea, Jamaica, and elsewhere to extract aluminum's base mineral bauxite from local mines. Some firms internationalize to gain flexibility from a greater variety of supply bases. Dell Computer has assembly facilities in Asia, Europe, and the Americas that allow management to shift production quickly from one region to another. This flexibility provides Dell with competitive advantages over less agile rivals—a distinctive capability that allows Dell to outperform competitors and skillfully manage fluctuations in currency exchange rates.
- *Gain access to lower-cost or better-value factors of production.* Internationalization enables the firm to access capital, technology, managerial talent, and labor at lower costs, higher quality, or better value. For example, some Taiwanese computer manufacturers established subsidiaries in the United States to access low-cost capital. The United States is home to numerous capital sources in the high-tech sector, such as stock exchanges and venture capitalists, which have attracted many firms from abroad seeking funds. More commonly, firms venture abroad in search of skilled or low-cost labor. For example, the Japanese firm Canon relocated much of its production to China to profit from that country's inexpensive and productive workforce.
- *Develop economies of scale in sourcing, production, marketing, and R&D.* Economies of scale reduce the per-unit cost of manufacturing by operating at high volume. For example, the per-unit cost of manufacturing 100,000 cameras is much cheaper than the per-unit cost of making just 100 cameras. By expanding internationally, the firm greatly increases the size of its customer base, thereby increasing the volume of goods it produces. On a per-unit-of-output basis, the greater the volume of production, the lower the total cost. Economies of scale are also present in R&D, sourcing, marketing, distribution, and after-sales service.
- *Confront international competitors more effectively or thwart the growth of competition in the home market.* International competition is substantial and increasing, with multinational competitors invading markets worldwide. The firm can enhance its competitive positioning by confronting competitors in international markets or preemptively entering a competitor's home market to destabilize and curb its growth. One example is Caterpillar's entry in Japan to confront its main rival in the earthmoving equipment industry, Komatsu. Caterpillar's preemptive move hindered Komatsu's international expansion for at least a decade. Had it not acted proactively to stifle Komatsu's growth in Japan, Komatsu's home market, Caterpillar would certainly have had to face a more potent rival sooner.
- *Invest in a potentially rewarding relationship with a foreign partner.* Firms often have long-term strategic reasons for venturing abroad. Joint ventures or project-based alliances with key foreign players can lead to the development of new products, early positioning in future key markets, or other long-term, profit-making opportunities. For example, Black and Decker entered a joint venture with Bajaj, an Indian

Source: Coleman Yuen/Pearson Education Asia Ltd.

A vibrant workforce is driving economic development and buying power in emerging markets. Here consumers flock to a popular shopping street in Beijing, China.

retailer, to position itself for expected long-term sales in the huge Indian market. The French computer firm Groupe Bull partnered with Toshiba in Japan to gain insights for developing the next generation of information technology.

At the broadest level, companies internationalize to enhance competitive advantage and find growth and profit opportunities. Throughout this book, we explore the environment within which firms seek these opportunities, and we discuss the strategies and managerial skills necessary for achieving international business success.

MyLab Management Watch It!
If your professor has assigned this, go to the Assignments section of **www.pearson.com/mylab/management** to complete the video exercise titled MINI Globalization.

1.5 Appreciate why you should study international business.

Why Study International Business?

There are many reasons to study international business. We examine them from the perspectives of the global economy, the national economy, the firm, and you as a future manager.

Facilitator of the Global Economy and Interconnectedness

International business is transforming the world as never before. In the past 50 years, international trade and investment have experienced unprecedented growth. Since the 1980s, *emerging markets* have provided new impetus to worldwide economic interconnectedness. These fast-growth developing economies—some 30 countries, including Brazil, Russia, India, and China, the so-called BRICs—are experiencing substantial market liberalization, privatization, and industrialization, which are fueling global economic transformation.

Contributor to National Economic Well-Being

International business contributes to economic prosperity, helps countries use their resources more efficiently, and provides interconnectedness to the world economy and access to a range of products and services. Consequently, governments have become more willing to open their borders to foreign trade and investment.

International trade is a critical engine for job creation. It is estimated that every $1 billion increase in exports creates more than 20,000 new jobs. In the United States, cross-border trade directly supports at least 11 million jobs. One of every seven dollars of U.S. sales is made abroad. One of every three U.S. farm acres and one of every six U.S. jobs is producing for export markets. On average, exporting firms create jobs faster and provide better pay than nonexporting firms.[21]

Source: satina/123rf

International trade is encouraging faster diffusion of consumer products and brands around the world.

A Competitive Advantage for the Firm

To sustain a competitive advantage in the global economy, firms must readily participate in cross-border business and acquire the necessary skills, knowledge, and competence. Procter & Gamble sells shampoo, disposable diapers, and other consumer products in more than 150 countries. MTV broadcasts its programming in some 140 countries. Nestlé sells its food and beverage products worldwide, obtaining nearly all its revenue from foreign operations. As these examples imply, going international offers countless opportunities for firms to grow and earn additional profits.

You Can Do It

RECENT GRAD IN IB

MARY LYLES

Mary's Degrees: Bachelor's degree in Spanish, master's in international business
Internships during college: World Trade Center of Atlanta; purchasing intern, Diaz Foods
Jobs held since graduating:

- Buyer and private label project manager, Diaz Foods, Atlanta, USA
- Sourcing analyst, Starbucks, Rancho Cucamonga, California, USA
- Senior sourcing analyst, Starbucks, Seattle, USA

When she first enrolled in college, Mary considered becoming a dentist. But after pondering the long list of science courses required in dentistry, Mary had a change of heart. Her natural enthusiasm for learning about cultures, languages, and religions pushed her toward a career in international business. Mary majored in Spanish. A study abroad program in Granada, Spain, inspired her to pursue a master's degree in international business.

In graduate school, Mary sought the guidance of advisors and mentors. She undertook two internships: one at the World Trade Center in Atlanta and another at Diaz Foods, a Hispanic food distributor in Atlanta. At Diaz Foods, Mary developed a passion for sourcing and supply chain management. Upon graduation, the firm hired Mary to develop the food brand D'Sabor. Mary worked diligently to locate and source manufacturers worldwide. Around this time, Diaz Foods acquired La Cena Fine Foods, a distributor of Hispanic foods. Mary was part of the acquisition team tasked with ensuring synergy with the acquired firm. After two years at Diaz Foods, Mary was feeling adventurous and sought a change of scene.

She next took a position with the Starbucks Coffee Company at its Evolution Fresh juice plant in California. There, she worked as a sourcing analyst for fresh produce, puree, and other juice ingredients. She managed order placement and production of domestic and international crops such as pineapple and coconut. She traveled regularly to production sites in Mexico and the United States for sourcing and to conduct safety and quality audits.

Within two years, Mary was promoted to senior sourcing analyst on the food ingredient sourcing team and moved to Starbucks headquarters in Seattle. There she manages bread, condiment, and sauce commodities for prepared foods. In this role, Mary supports new food innovation, product launches, category strategy, and supplier relationships. For her next career goal, Mary aims to support Starbucks' international expansion efforts.

Mary's Advice for an International Career

"Develop a global mind-set. Globalization has changed the way business is done, and more than ever, firms need talent with a global mind-set. Realize that your dreams will not happen overnight. If you keep your mind focused on the end goal, you will get there! Cultivating relationships with a diverse group of associates and friends will expose you to different cultures, increasing your knowledge of the global community."

Success Factors

Mary says networking and diversity have been key success factors in her career so far. "Network! I cannot overstress the importance of it. Without networking, I would not be where I am today. You never know who will help you meet your goals or get you the next job. Be sure to maintain relationships along the way, and do not reach out only when you need something. Good managers and true leaders will always want to help you achieve success and exceed your goals. Set clear goals from the onset, and communicate with your boss openly and objectively about any issues that may arise." Mary surrounds herself with a diverse group of individuals in her professional and personal life. She believes diversity is critical for generating new ideas and producing extraordinary outcomes.

Challenges

"Dealing with cultural differences can be tricky! When working on a project in another country, you have to adapt the product, but you also need to keep it true to the brand."

Mary aspires to leverage the knowledge gained at Starbucks to pursue an international assignment to support Starbucks's food platform in one of the firm's international locations. Mary's passion for international business is paying off.

Source: Courtesy of Mary Lyles.

A Competitive Advantage for You

Although most international careers are based in one's home country, managers travel the world and meet people from various cultures and backgrounds. Traveling abroad leads to exciting challenges and learning experiences. Managers rising to the top of most of the world's leading corporations honed their managerial skills in international business.

The *CKR CAREER PREPARATION KIT* has been specifically designed to integrate and advance your learning of "CKR Intangible Soft Skills" and "CKR Tangible Process Tools" to improve your employability and success in the workplace.

In this text, you will read about recent graduates who describe how they have applied CKR Intangible Soft Skills and CKR Tangible Process Tools in their career development in a special feature called *You Can Do It: Recent Grad in IB*. Read about Mary Lyles, a recent graduate who is enjoying her early experiences in international business.

An Opportunity to Support Ethics, Sustainability, and Corporate Citizenship

As the world's population grows, so do pressures to meet consumer demand in an ethical and sustainable way. Increasingly, companies operate in environments characterized by limited resources, vulnerable human conditions, and stakeholder consciousness on issues that affect all society. In response to this trend, companies are expanding their awareness about the social and environmental implications of their actions. Rather than being caught off guard, firms increasingly develop ethical, sustainable, and socially responsible policies and practices. For example, Starbucks began selling coffee only from growers certified by the Rain Forest Alliance (www.rainforest-alliance.org), a nonprofit organization that promotes the interests of coffee growers and the environment. Such multinational enterprises as Philips, Unilever, and Walmart follow business practices that promote sustainable development. McDonald's buys beef from farmers who meet special standards on animal welfare and environmental practices. Its outlets in Austria, Germany, Sweden, and the United Kingdom sell only organic milk.[22] Internationally active firms must embed corporate citizenship in their strategic decisions as well as their ongoing processes and practices. Ethics and responsible behavior in firms' international activities are of such importance that we devote Chapter 4 to this topic.

1.6 Learn the CKR Intangible Soft Skills™ and the CKR Tangible Process Tools™ to improve your employability and success in the workplace.

CKR Career Preparation Kit: Tangible Process Tools and Travel Abroad Preparation Checklist

Traveling internationally requires thorough, early preparation and entails numerous requirements not needed for domestic travel.

Documents required for international travel include a passport, a traveler's visa issued by the embassy of some host countries, proof of return trip, and hotel reservations. Requirements of customs authorities vary by country.

It is vital to understand and comply with security, safety, and health care requirements for the specific countries that you visit.

Electricity standards vary around the world. Investigate and obtain appropriate plug adapters and converters prior to travel. Mobile telephone standards often vary, and international calling costs can be substantial. Check with your service provider to identify and choose the best phone plan to minimize calling costs abroad.

Most countries use different currencies. Learn about currency exchange rates and the feasibility of using credit and debit cards prior to travel. You may wish to obtain the appropriate foreign currency(s) prior to departure. Banks and credit card companies usually require their customers to notify them in advance of anticipated card usage abroad.

It is wise to familiarize yourself with laws in the destination country(s) and comply with them. If you plan to drive a car overseas, it is usually best to obtain an International Driving Permit (IDP) prior to departure. Cultural awareness is critical and is addressed in Chapter 3 of this textbook.

Please consult the Pearson MyLab Management at: www.pearson.com/mylab/management for a link to the "CKR: TRAVEL ABROAD PREPARATION CHECKLIST" ©, a comprehensive list of these details prior to traveling outside your home country.

CLOSING CASE Internationalization at Vodafone

Vodafone, a British company headquartered in Newbury, Berkshire, England, is the world's second largest mobile communications operator, with networks in 64 countries in five continents, serving 458 million customers. Its annual revenues in 2018 were $53.3 billion and its earnings before interest, taxes, depreciation, and amortization were $16.8 billion.

About 66 percent of Vodafone's revenues come from consumer services and 29 percent from business customers. In 2018, 4G was up 63 percent to 122 million customers worldwide. Smartphone usage in 2018 saw customers, on average, using 2.5 GB per month (up 51 percent year on year). The company has several "growth engines" that identify their key priorities and sources of revenue:

Mobile data: The year 2018 saw an overall growth of 63 percent, with 4G customers reaching 122 million. Smartphone use was up 51 percent compared to 2017. Fixed Services (e.g., broadband) as a percentage of the overall revenue has increased from 22 percent in 2015 to 25 percent in 2018

Enterprise (business services): This is a growing part of the business, representing some 29 percent of the group's revenue. There was a 0.9 percent growth in 2018 compared to 2017.

Regulatory and Technology Challenges and Opportunities

Vodafone began in 1982 as Racal Electronics, a manufacturer of military communications equipment, and entered the civil cellular sector in 1985, at a time when telecommunications was a highly regulated industry in most of the world. Deregulation in Europe began in mid-1980s, first in Britain and later in Continental Europe. This development was followed in the 1990s by the introduction of a pan-European technological standard, the Global System for Mobiles (GSM), which is now used in 219 countries for harmonized frequencies that enable seamless roaming. Vodafone was one of the very first telecommunications services providers to convert its network to the new technology.

Threat of Foreign Competitors

The advent of GSM and the abolition of state monopolies in EU mobile telephony prompted speculative investors to get into the industry. By 1998, there were on average three mobile operators per country. The more ambitious ones, from France and Germany, quickly saw opportunities for expansion in the Continent and Britain. Vodafone came under attack from alliances built by competitors wanting to exploit the UK market.

International Expansion

In a defensive reaction, Vodafone's management began contemplating overseas expansion. It realized that confronting its major Continental competitors head-on was risky, so its first internationalization moves were toward former British colonies and protectorates, such as Gulf States and Malta, where cultural differences were low. The business potential of these markets was, however, limited. In a bold move, the company decided to sail across the Atlantic, where cellular telephony was still fragmented, with scores of small operators jockeying for limited geographical territories. In June 1999, the British company was successful in acquiring a 45 percent stake in AirTouch Cellular, a Californian corporation using the AMPS technology standard. A year later, it was renamed to Verizon Wireless.

With new confidence after this strategic move, Vodafone made an offer to buy a controlling interest in Mannesmann, Germany's second largest mobile operator, which was already in partnership negotiations with two heavyweights of the industry, Hong Kong's Hutchinson Whampoa and France's Vivendi. Mannesmann's CEO and Board said they were not interested to sell. Vodafone swiftly made a hostile takeover bid directly to the German company's shareholders. In spite of resistance from the German government and the general public, in February 2000, Vodafone succeeded in striking a friendly merger, paying $180.95 billion for the control of 50.5 percent of the new company. This transaction, the largest cross-border merger ever, did not involve any cash: Mannesmann's shareholders received Vodafone shares in lieu of payment.

The company's global expansion followed rapidly, and the stock-swap payment method has been enshrined in Vodafone's financial strategy. Its strategic goal has also remained steady: to invest in the number two operator in the target country. Vodafone's network is today composed of 25 wholly- or majority-owned subsidiaries and 47 associated, partnership, and joint venture operations. Customer billing is done in local currencies. Through interconnection agreements, Vodafone also offers its users roaming to practically any country on the globe. Its submarine cable infrastructure reaches 100 countries.

Vodafone is a truly multicultural organization. It employs 111,556 persons from two-dozen different nationalities. Its CEO is British, but his predecessors were Italian and Indian. Women occupy 29 percent of senior management positions.

The emerging markets have taken prominence in the company's internationalization strategy, with emphasis on Asia and Sub-Saharan Africa. Vodafone is organized in two geographical divisions: Europe and AMAP (Africa, Middle East, Asia-Pacific), which contribute at 75 percent and 23 percent respectively to total revenues. Vodafone failed to enter the Chinese market with an acquisition, but it broke through in India, where today it serves 223 million customers.

Expansion Hurdles and the Future

Vodafone's internationalization has not always been smooth. Technology incompatibility with national standards in Japan and America, shareholders' appetite for dividends, and cross-cultural issues in certain markets have forced the management to divest from its ventures in Japan, France, and the United States, thus reducing the company's market value. It has now become a target of take-over bids by China Mobile, world's largest mobile operator, and AT&T, from Dallas, Texas. In Europe, where mobile telephony revenues have fallen 11 percent between 2009 and 2015, industry consolidation is in the air, with Orange, Telefonica, Hatchinson Whampoa, Liberty, new entrant Altice, and corporate raiders looking for acquisitions. Vodafone may benefit from this race or become its victim.