INTERNATIONAL BUSINESS

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Chapter 1: Introduction

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Introduction

WHAT'S IN IT FOR ME?

1. What is international business?
2. Who has an interest in international business?
3. What forms do international businesses take?
4. What is the globalization debate?
5. What is the relationship between international business and ethics?

This chapter introduces you to the study of international business. After reading a short case study on Google Inc., the Internet search-engine company, you'll begin to learn what makes international business such an essential subject for students around the world. Because international business is a vital ingredient in strategic management and entrepreneurship, this book uses these complementary perspectives to help you understand international business. Managers, entrepreneurs, workers, for-profit and nonprofit organizations, and governments all have a vested interest in understanding and shaping global business practices and trends. Section 1.1 "What Is International Business?" gives you a working definition of *international business*; Section 1.2 "Who Is Interested in International Business?" helps you see which actors are likely to have a direct and indirect interest in it. You'll then learn about some of the different forms international businesses take; you'll also gain a general understanding of the globalization debate. This debate centers on (1) whether the world is flat, in the sense that all markets are interconnected and competing unfettered with each other, or (2) whether differences across countries and markets are more significant than the commonalities. In fact, some critics negatively describe the "world is flat" perspective as *globaloney*! What you'll discover from the discussion of this debate is that the world may not be flat in the purest sense, but there are powerful forces, also called flatteners, at work in the world's economies. Section 1.5 "Ethics and International Business" concludes with an introductory discussion of the relationship between international business and ethics.

Opening Case: Google's Steep Learning Curve in China

Of all the changes going on in the world, the Internet is the one development that many people believe makes our world a smaller place—a *flat* or*flattening world*, according to Thomas Friedman, Pulitzer

Prize–winning author of *The World Is Flat: A Brief History of the Twenty-First Century* and*The Lexus and the Olive Tree: Understanding Globalization*. Because of this flattening effect, Internet businesses should be able to cross borders easily and profitably with little constraint. However, with few exceptions, cross-border business ventures always seem to challenge even the most able of competitors, Internet-based or not. Some new international ventures succeed, while many others fail. But in every venture the managers involved can and do learn something new. Google Inc.'s learning curve in China is a case in point.

In 2006, Google announced the opening of its Chinese-language website amid great fanfare. While Google had access to the Chinese market through Google.com at the time, the new site, Google.cn, gave the company a more powerful, direct vehicle to further penetrate the approximately 94 million households with Internet access in China. As company founders Larry Page and Sergey Brin said at the time, "Unfortunately, access for Chinese users to the Google service outside of China was slow and unreliable, and some content was restricted by complex filtering within each Chinese ISP. Ironically, we were unable to get much public or governmental attention paid to the issue. Although we dislike altering our search results in any way, we ultimately decided that staying out of China simply meant diminishing service and influence there. Building a real operation in China should increase our influence on market practices and certainly will enhance our service to the Chinese people." [1]

A Big Market, Bigger Concerns

Google's move into China gave it access to a very large market, but it also raised some ethical issues. Chinese authorities are notorious for their hardline censorship rules regarding the Internet. They take a firm stance against risqué content and have objected to The Sims computer game, fearing it would corrupt their nation's youth. Any content that was judged as possibly threatening "state security, damaging the nation's glory, disturbing social order, and infringing on other's legitimate rights" was also banned. [2]When asked how working in this kind of environment fit with Google's informal motto of "Don't be evil" and its code-of-conduct aspiration of striving toward the "highest possible standard of ethical business," Google's executives stressed that the license was just to set up a representative office in Beijing

and no more than that—although they did concede that Google was keenly interested in the market. As reported to the business press, "For the time being, [we] will be using the [China] office as a base from which to conduct market research and learn more about the market." [3] Google likewise sidestepped the ethical questions by stating it couldn't address the issues until it was fully operational in China and knew exactly what the situation was.

One Year Later

Google appointed Dr. Kai-Fu Lee to lead the company's new China effort. He had grown up in Taiwan, earned BS and PhD degrees from Columbia and Carnegie Mellon, respectively, and was fluent in both English and Mandarin. Before joining Google in 2005, he worked for Apple in California and then for Microsoft in China; he set up Microsoft Research Asia, the company's research-and-development lab in Beijing. When asked by a *New York Times*reporter about the cultural challenges of doing business in China, Lee responded, "The ideals that we uphold here are really just so important and noble. How to build stuff that users like, and figure out how to make money later. And 'Don't Do Evil' [referring to the motto 'Don't be evil']. All of those things. I think I've always been an idealist in my heart." [4]

Despite Lee's support of Google's utopian motto, the company's conduct in China during its first year seemed less than idealistic. In January, a few months after Lee opened the Beijing office, the company announced it would be introducing a new version of its search engine for the Chinese market. Google's representatives explained that in order to obey China's censorship laws, the company had agreed to remove any websites disapproved of by the Chinese government from the search results it would display. For example, any site that promoted the Falun Gong, a government-banned spiritual movement, would not be displayed. Similarly (and ironically) sites promoting free speech in China would not be displayed, and there would be no mention of the 1989 Tiananmen Square massacre. As one Western reporter noted, "If you search for 'Tibet' or 'Falun Gong' most anywhere in the world on google.com, you'll find thousands of blog entries, news items, and chat rooms on Chinese repression. Do the same search inside China on google.cn, and most, if not all, of these links will be gone. Google will have erased them completely." [5]

Google's decision didn't go over well in the United States. In February 2006, company executives were called into congressional hearings and compared to Nazi collaborators. The company's stock fell, and protesters waved placards outside the company's headquarters in Mountain View, California. Google wasn't the only American technology company to run aground in China during those months, nor was it the worst offender. However, Google's executives were supposed to be different; given their lofty motto, they were supposed to be a cut above the rest. When the company went public in 2004, its founders wrote in the company's official filing for the US Securities and Exchange Commission that Google is "a company that is trustworthy and interested in the public good." Now, politicians and the public were asking how Google could balance that with making nice with a repressive Chinese regime and the Communist Party behind it. [6] One exchange between Rep. Tom Lantos (D-CA) and Google Vice President Elliot Schrage went like this:

Lantos:	You have nothing to be ashamed of?
Schrage:	I am not ashamed of it, and I am not proud of it…We have taken a path, we have begun on a path, we have done a path that…will ultimately benefit all the users in China. If we determined, congressman, as a result of changing circumstances or as a result of the implementation of the Google.cn program that we are not achieving those results then we will assess our performance, our ability to achieve those goals, and whether to remain in the market. [7]

See the video "Google on Operating inside China" athttp://news.cnet.com/1606-2-6040114.html. In the video, Schrage, the vice president for corporate communications and public affairs, discusses Google's competitive situation in China. Rep. James Leach (R-IA) subsequently accuses Google of becoming a servant of the Chinese government.

Google Ends Censorship in China

In 2010, Google announced that it was no longer willing to censor search results on its Chinese service. The world's leading search engine said the decision followed a cyberattack that it believes was aimed at gathering information on Chinese human rights activists. [8] Google also cited the Chinese government's restrictions on the Internet in China during 2009. [9]Google's announcement led to speculation whether

Google would close its offices in China or would close Google.cn. Human rights activists cheered Google's move, while business pundits speculated on the possibly huge financial costs that would result from losing access to one of the world's largest and fastest-growing consumer markets.

In an announcement provided to the US Securities and Exchange Commission, Google's founders summarized their stance and the motivation for it. Below are excerpts from Google Chief Legal Officer David Drummond's announcement on January 12, 2010. [10]

Like many other well-known organizations, we face cyberattacks of varying degrees on a regular basis. In mid-December, we detected a highly sophisticated and targeted attack on our corporate infrastructure originating from China, resulting in the theft of intellectual property from Google. However, it soon became clear that what at first appeared to be solely a security incident—albeit a significant one—was something quite different.

First, this attack was not just on Google. As part of our investigation, we have discovered that at least twenty other large companies from a wide range of businesses—including the Internet, finance, technology, media, and chemical sectors—have been similarly targeted. We are currently in the process of notifying those companies, and we are also working with the relevant US authorities.

Second, we have evidence to suggest that a primary goal of the attackers was accessing the Gmail accounts of Chinese human rights activists. Based on our investigation to date, we believe their attack did not achieve that objective. Only two Gmail accounts appear to have been accessed, and that activity was limited to account information (such as the date the account was created) and subject line, rather than the content of emails themselves.

Third, as part of this investigation but independent of the attack on Google, we have discovered that the accounts of dozens of US-, China- and Europe-based Gmail users who are advocates of human rights in China appear to have been routinely accessed by third parties. These accounts have not been accessed through any security breach at Google, but most likely via phishing scams or malware placed on the users' computers.

We have taken the unusual step of sharing information about these attacks with a broad audience, not just because of the security and human rights implications of what we have unearthed, but also because this information goes to the heart of a much bigger global debate about freedom of speech. In the last two decades, China's economic reform programs and its citizens' entrepreneurial flair have lifted hundreds of millions of Chinese people out of poverty. Indeed, this great nation is at the heart of much economic progress and development in the world today.

The decision to review our business operations in China has been incredibly hard, and we know that it will have potentially far-reaching consequences. We want to make clear that this move was driven by our executives in the United States, without the knowledge or involvement of our employees in China who have worked incredibly hard to make Google.cn the success it is today. We are committed to working responsibly to resolve the very difficult issues raised.

The Chinese government's first response to Google's announcement was simply that it was "seeking more information." [11] In the interim, Google "shut down its censored Chinese version and gave mainlanders an uncensored search engine in simplified Chinese, delivered from its servers in Hong Kong." [12] Like most firms that venture out of their home markets, Google's experiences in China and other foreign markets have driven the company to reassess how it does business in countries with distinctly different laws.

Opening Case Exercises

(AACSB: Ethical Reasoning, Multiculturalism, Reflective Thinking, Analytical Skills)

1. Can Google afford *not* to do business in China?
2. Which stakeholders would be affected by Google's managers' possible decision to shut down its China operations? How would they be affected? What trade-offs would Google be making?
3. Should Google's managers be surprised by the China predicament?

[1] Larry Page and Sergey Brin, "2005 Founders' Letter," Google Investor Relations, December 31, 2005, accessed October 25, 2010,http://investor.google.com/corporate/2005/founders-letter.html.

[2] John Oates, "Chinese Government Censors Online Games," *Register*, June 1, 2004, accessed November 12, 2010,http://www.theregister.co.uk/2004/06/01/china_bans_games.

[3] Lucy Sherriff, "Google Goes to China," *Register*, May 11, 2005, accessed January 25, 2010, http://www.theregister.co.uk/2005/05/11/google_china.

[4] Clive Thompson, "Google's China Problem (and China's Google Problem)," *New York Times*, April 23, 2006, accessed January 25, 2010,http://www.nytimes.com/2006/04/23/magazine/23google.html.

[5] Clive Thompson, "Google's China Problem (and China's Google Problem)," *New York Times*, April 23, 2006, accessed January 25, 2010,http://www.nytimes.com/2006/04/23/magazine/23google.html.

[6] Larry Page and Sergey Brin, "2004 Founders' IPO Letter," Google Investor Relations, August 18, 2004, accessed October 25, 2010,http://investor.google.com/corporate/2004/ipo-founders-letter.html.

[7] Declan McCullagh, "Congressman Quizzes Net Companies on Shame," *CNET*, February 15, 2006, accessed January 25, 2010, http://news.cnet.com/Congressman-quizzes-Net-companies-on-shame/2100-1028_3-6040250.html.

[8] Jessica E. Vascellaro, Jason Dean, and Siobhan Gorman, "Google Warns of China Exit over Hacking," January 13, 2010, accessed November 12, 2010,http://online.wsj.com/article/SB126333757451026659.html#ixzz157TXi4FV.

[9] Tania Branigan, "Google to End Censorship in China over Cyber Attacks," *Guardian*, January 13, 2010, accessed November 12, 2010,http://www.guardian.co.uk/technology/2010/jan/12/google-china-ends-censorship.

[10] David Drummond, "A New Approach to China," *Official Google Blog*, January 12, 2010, accessed January 25, 2010, http://googleblog.blogspot.com/2010/01/new-approach-to-china.html.

[11] Tania Branigan, "Google Challenge to China over Censorship," *Guardian*, January 13, 2010, accessed January 25, 2010,http://www.guardian.co.uk/technology/2010/jan/13/google-china-censorship-battle.

[12] Harry McCracken, "Google's Bold China Move," *PCWorld*, March 23, 2010, accessed November 12, 2010,http://www.pcworld.com/article/192130/googles_bold_china_move.html

1.1 What Is International Business?

LEARNING OBJECTIVES

1. Know the definition of international business.
2. Comprehend how strategic management is related to international business.
3. Understand how entrepreneurship is related to international business.

The Definition of International Business

As the opening case study on Google suggests, international business relates to any situation where the production or distribution of goods or services crosses country borders. Globalization—the shift toward a more interdependent and integrated global economy—creates greater opportunities for international business. Such globalization can take place in terms of markets, where trade barriers are falling and buyer preferences are changing. It can also be seen in terms of production, where a company can source goods and services easily from other countries. Some managers consider the definition of international business to relate purely to "business," as suggested in the Google case. However, a broader definition of international business may serve you better both personally and professionally in a world that has moved beyond simple industrial production. International business encompasses a full range of cross-border exchanges of goods, services, or resources between two or more nations. These exchanges can go beyond the exchange of money for physical goods to include international transfers of other resources, such as people, intellectual property (e.g., patents, copyrights, brand trademarks, and data), and contractual assets or liabilities (e.g., the right to use some foreign asset, provide some future service to foreign customers, or execute a complex financial instrument). The entities involved in international business range from large multinational firms with thousands of employees doing business in many countries around the world to a small one-person company acting as an importer or exporter. This broader definition of international business also encompasses for-profit border-crossing transactions as well as transactions motivated by nonfinancial gains (e.g., triple bottom line, corporate social responsibility, and political favor) that affect a business's future.

Strategic Management and Entrepreneurship

A knowledge of both strategic management and entrepreneurship will enhance your understanding of international business. Strategic management is the body of knowledge that answers questions about the

development and implementation of good strategies and is mainly concerned with the determinants of firm performance. A strategy, in turn, is the central, integrated, and externally oriented concept of how an organization will achieve its performance objectives. [1] One of the basic tools of strategy is aSWOT (strengths, weaknesses, opportunities, threats) assessment. The SWOT tool helps you take stock of an organization's internal characteristics—its strengths and weaknesses—to formulate an action plan that builds on what it does well while overcoming or working around weaknesses. Similarly, the external part of SWOT—the opportunities and threats—helps you assess those environmental conditions that favor or threaten the organization's strategy. Because strategic management is concerned with organizational performance—be that social, environmental, or economic—your understanding of a company's SWOT will help you better assess how international business factors should be accounted for in the firm's strategy.

Entrepreneurship, in contrast, is defined as the recognition of opportunities (i.e., needs, wants, problems, and challenges) and the use or creation of resources to implement innovative ideas for new, thoughtfully planned ventures. An entrepreneur is a person who engages in entrepreneurship. Entrepreneurship, like strategic management, will help you to think about the opportunities available when you connect new ideas with new markets. For instance, given Google's current global presence, it's difficult to imagine that the company started out slightly more than a decade ago as the entrepreneurial venture of two college students. Google was founded by Larry Page and Sergey Brin, students at Stanford University. It was first incorporated as a privately held company on September 4, 1998. Increasingly, as the Google case study demonstrates, international businesses have an opportunity to create positive social, environmental, and economic values across borders. An entrepreneurial perspective will serve you well in this regard.

Spotlight on International Strategy and Entrepreneurship

Hemali Thakkar and three of her fellow classmates at Harvard found a way to mesh the power of play with electrical power. The foursome invented "a soccer ball with the ability to generate electricity," Thakkar said. [2] Every kick of the ball creates a current that's captured for future use. Fifteen minutes of play lights a lamp for three hours.

Called the sOccket, the soccer ball can bring off-grid electricity to developing countries. Even better, the soccer ball can replace kerosene lamps. Burning kerosene is not only bad for the environment because of carbon dioxide emissions but it's also a health hazard: according to the World Bank, breathing kerosene fumes indoors has the same effects as smoking two packs of cigarettes per day. [3]

How did the idea of sOccket emerge? All four students (Jessica Lin, Jessica Matthews, Julia Silverman, and Hemali Thakkar) had experience with developing countries, so they knew that kids love playing soccer (it's the world's most popular sport). They also knew that most of these kids lived in homes that had no reliable energy. [4]

As of November 2010, the sOccket prototype cost $70 to manufacture, but the team hopes to bring the cost down to $10 when production is scaled up.[5] One ingenious way to bring costs down is to set up facilities where developing-world entrepreneurs assemble and sell the balls themselves.

At this point it's also important to introduce you to the concepts ofintrapreneurship and the intrapreneur. Intrapreneurship is a form of entrepreneurship that takes place inside a business that is already in existence. An intrapreneur, in turn, is a person within the established business who takes direct responsibility for turning an idea into a profitable finished product through assertive risk taking and innovation. An entrepreneur is starting a business, while an intrapreneur is developing a new product or service in an already existing business. Thus, the ideas of entrepreneurship can be applied not only in new ventures but also in the context of existing organizations—even government.

KEY TAKEAWAYS

- International business encompasses a full range of cross-border exchanges of goods, services, or resources between two or more nations. These exchanges can go beyond the exchange of money for physical goods to include international transfers of other resources, such as people, intellectual property (e.g., patents, copyrights, brand trademarks, and data), and contractual assets or liabilities (e.g., the right

to use some foreign asset, provide some future service to foreign customers, or execute a complex financial instrument).

- Strategic management is the body of knowledge that answers questions about the development and implementation of good strategies and is mainly concerned with the determinants of firm performance. Because strategic management is concerned with organizational performance, your understanding of a company's SWOT (strengths, weaknesses, opportunities, threats) helps you better assess how international business factors should be accounted for in the firm's strategy.
- Entrepreneurship is the recognition of opportunities (i.e., needs, wants, problems, and challenges) and the use or creation of resources to implement innovative ideas. Entrepreneurship helps you think about the opportunities available when you connect new ideas with new markets.

EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. What is international business?
2. Why is an understanding of strategy management important in the context of international business?
3. Why is an understanding of entrepreneurship important in the context of international business?

[1] {Author's name retracted as requested by the work's original creator or licensee} and William G. Sanders, *Strategic Management: A Dynamic Perspective, Concepts and Cases* (Upper Saddle River, NJ: Pearson Education, 2007).

[2] "Harnessing the Power of Soccer," interview with Thakkar Hemali by Ike Sriskandarajah, October 20, 2010, accessed November 12, 2010, http://www.loe.org/shows/segments.htm?programID=10-P13-00044&segmentID=5.

[3] Ariel Schwartz, "The SOccket: A Soccer Ball to Replace Kerosene Lamps," *Fast Company*, January 26, 2010, accessed November 12, 2010, http://www.fastcompany.com/blog/ariel-schwartz/sustainability/soccket-soccer-ball-replace-kerosene-lamps.

[4] Clark Boyd, "SOccket: Soccer Ball by Day, Light by Night," *Discovery News*, February 18, 2010, accessed November 12, 2010, http://news.discovery.com/tech/soccket-soccer-ball-by-day-light-by-night.html.

[5] Ike Sriskandarajah, "Soccer Ball Brings Off-Grid Electricity Onto the Field," *The Atlantic*, November 3, 2010, accessed November 12, 2010, http://www.theatlantic.com/technology/archive/2010/11/soccer-ball-brings-off-grid-electricity-onto-the-field/65977.

1.2 Who Is Interested in International Business?

LEARNING OBJECTIVES

1. Know who has an interest in international business.
2. Understand what a stakeholder is and why stakeholder analysis might be important in the study of international business.
3. Recognize that an organization's stakeholders include more than its suppliers and customers.

The Stakeholders

As you now know, *international business* refers to a broad set of entities and activities. But who cares about international business in the first place? To answer this question, let's discuss stakeholders and stakeholder analysis. Astakeholder is an individual or organization whose interests may be affected as the result of what another individual or organization does. [1]Stakeholder analysis is a technique you use to identify and assess the importance of key people, groups of people, or institutions that may significantly influence the success of your activity, project, or business. In the context of what you are learning here, individuals or organizations will have an interest in international business if it affects them in some way—positively or negatively. [2] That is, they have something important at stake as a result of some aspect of international business.

Obviously, Google and its managers need to understand international business because they do business in many countries outside their home country. A little more than half the company's revenues come from outside the United States. [3]Does this mean that international business wouldn't be relevant to Google if it only produced and sold its products in one country? Absolutely not! Factors of international business would still affect Google—through any supplies it buys from foreign suppliers, as well as the possible impact of foreign competitors that threaten to take business from Google in its home markets. Even if these factors were not present, Google could still be affected by price swings—for instance, in the international prices of computer parts, even if they bought those parts from US suppliers. After all, the prices of some of the commodities used to make those parts are determined globally, not locally. Beyond its involvement in web advertising, which requires massive investments in computer-server farms around the world, Google is increasingly active in other products and services—for example, cell phones and the operating systems they use.

So far, this chapter has covered only how a business and its managers should understand international business, regardless of whether their organization sells or produces products or services across borders. Who else might be an international business stakeholder beyond Google and its management? First, Google is likely to have to pay taxes, right? It probably pays sales taxes in markets where it sells its products, as well as property and payroll taxes in countries where it has production facilities. Each of these governmental stakeholders has an important economic interest in Google. Moreover, in many countries, the government is responsible for protecting the environment. Google's large computer-server farms consume energy and generate waste, and its products (e.g., cell phones) come in disposable packaging, thus impacting the environment in places where they are manufactured and sold.

Beyond the company and governments, other stakeholder groups might include industry associations, trade groups, suppliers, and labor. For instance, you've already learned that Google is an Internet search-engine company, so it could be a member of various computer-related industry associations. Labor is also a stakeholder. This can include not only the people immediately employed by a business like Google but also contract workers or workers who will lose or gain employment opportunities depending on where Google chooses to produce and sell its products and services.

Did You Know?

From our opening case, you've learned a little about how different countries deal with personal privacy. At about the same time Google was experiencing difficulty protecting individuals' privacy in China, its managers in Italy were being convicted of violating consumer-privacy laws. Google executives had been accused of breaking Italian law by allowing a video clip of four boys bullying another child to be posted online. [4] The video had originally been posted by the boys themselves and Google removed the video when Italy's Interior Ministry requested its removal. [5] The three Google executives were absolved of the defamation charges but convicted of privacy violations. [6] Google said that the conviction of its top Italian managers "attacks the 'principles of freedom' of the Internet and poses a serious threat to the web." [7] Following the conviction, several privacy advocates stepped up to speak out in Google's defense—a position quite contrary to their typical stances in Google privacy stories. [8]

KEY TAKEAWAYS

- Beyond yourself, as an international business student and future international business person, you can identify the people and organizations that might have an interest in international business if their interests are affected now or in the future by it. Such international business stakeholders include employees, managers, businesses, governments, and nongovernmental organizations.
- Stakeholder analysis is a technique used to identify and assess the importance of key people, groups of people, or institutions that may significantly influence the success of an activity, project, or business.

EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. What is a stakeholder?
2. Why is stakeholder analysis important in international business?

[1] {Authors's names retracted as requested by the work's original creator or licensee}, *Principles of Management* (Nyack, NY)

[2] Management Sciences for Health and the United Nations Children's Fund, "Stakeholder Analysis," *The Guide to Managing for Quality*, 1998, accessed November 21, 2010,http://erc.msh.org/quality/ittools/itstkan.cfm.

[3] "Google Announces First Quarter 2009 Results," *Google Investor Relations*, April 16, 2009, accessed January 25, 2010,http://investor.google.com/releases/2009Q1_google_earnings.html.

[4] "Google Bosses Convicted in Italy," *BBC News*, February 24, 2010, accessed November 21, 2010, http://news.bbc.co.uk/2/hi/8533695.stm.

[5] J. R. Raphael, "Italy's Google Convictions Set a Dangerous Precedent," *PCWorld*, February 24, 2010, accessed November 21, 2010,http://www.pcworld.com/article/190191/italys_google_convictions_set_a_dangerous_precedent.html.

[6] Colleen Barry, "Three Google Employees Convicted in Italian Court of Privacy Violations," *Associated Press*, February 24, 2010, accessed November 21, 2010,http://www.cleveland.com/world/index.ssf/2010/02/three_google_employees_convict.html.

[7] Paul McNamara, "Conviction of Google Execs in Italy Sheer Madness," *PCWorld*, February 24, 2010, accessed April 5, 2010,http://www.pcworld.com/article/190125/conviction_of_google_execs_in_italy_sheer_madness.html.

[8] Jaikumar Vijayan, "Conviction of Google Execs Alarms Privacy Advocates," *PCWorld*, February 24, 2010, accessed April 5, 2010, http://www.pcworld.com/article/190175/conviction_of_google_execs_alarms_privacy_advocates.html.

1.3 What Forms Do International Businesses Take?

LEARNING OBJECTIVES

1. Know the possible forms that international businesses can take.
2. Understand the differences between exporting, importing, and foreign direct investment.
3. See how governments and nongovernmental organizations can be international businesses.

The Forms of International Business

It probably doesn't surprise you that international businesses can take on a variety of forms. Recognizing that international business, based on our broad definition, spans business, government, and nongovernmental organizations (NGOs), let's start by looking at business.

A business can be a person or organization engaged in commerce with the aim of achieving a profit. Business profit is typically gauged in financial and economic terms. However, some level of sustained financial and economic profits are needed for a business to achieve other sustainable outcomes measured as social or environmental performance. For example, many companies that are for-profit businesses also have a social and environmental mission. Table 1.1 "Sample Three-Part Mission Statement" provides an example of a company with this kind of mission.

Table 1.1 Sample Three-Part Mission Statement

Social and Environmental Mission	Product Mission	Economic Mission
Part of being a responsible company is working hard to help solve the world's environmental problems and, importantly, also helping those who buy our products to make more responsible choices. [1]	To make, distribute, and sell the finest quality products with a continued commitment to promoting business practices that respect the Earth and the environment. [2]	To create long-term value and capture the greatest opportunity for our stakeholders by delivering sustainable, profitable growth in sales, earnings, and cash flow in a global company built on pride, integrity, and respect. [3]

On the one hand, while companies such as Ben & Jerry's (part of Unilever) and SC Johnson are very large, it's hard to imagine any business—small or large—that doesn't have international operating concerns. On the other hand, the *international* part of a firm's business can vary considerably, from importing to exporting to having significant operations outside its home country. An importer sells products and services that are sourced from other countries; an exporter, in contrast, sells products and services in

foreign countries that are sourced from its home country. Beyond importing and exporting, some organizations maintain offices in other countries; this forms the basis for their level of foreign direct investment. Foreign direct investment means that a firm is investing assets directly into a foreign country's buildings, equipment, or organizations. In some cases, these foreign offices are carbon copies of the parent firm; that is, they have all the value creation and support activities, just in a different country. In other cases, the foreign operations are focused on a small subset of activities tailored to the local market, or those that the entity supplies for operations every place in which the firm operates.

When a firm makes choices about foreign operations that increase national and local responsiveness, the organization is more able to adapt to national and local market conditions. In contrast, the greater the level of standardization—both within and across markets—the greater the possible level of global efficiency. In many cases, the choice of foreign location generates unique advantages, referred to as location advantages. Location advantages include better access to raw materials, less costly labor, key suppliers, key customers, energy, and natural resources. For instance, Google locates its computer-server farms—the technological backbone of its massive Internet services—close to dams that produce hydroelectric power because it's one of the cheapest sources of electricity. [4] Ultimately, managerial choices regarding the trade-off between*global efficiency* and *local responsiveness* are a function of the firm's strategy and are likely to be a significant determinant of firm performance.

International Forms of Government

Governmental bodies also take on different international forms. Among political scientists, government is generally considered to be the body of people that sets and administers public policy and exercises executive, political, and sovereign power through customs, institutions, and laws within a state, country, or other political unit. Or more simply, government is the organization, or agency, through which a political unit exercises its authority, controls and administers public policy, and directs and controls the actions of its members or subjects.

Most national governments, for instance, maintain embassies and consulates in foreign countries. National governments also participate in international treaties related to such issues as trade, the

environment, or child labor. For example, the North American Free Trade Agreement (NAFTA) is an agreement signed by the governments of the United States, Canada, and Mexico to create a trade bloc in North America to reduce or eliminate tariffs among the member countries and thus facilitate trade. The Kyoto Protocol is an agreement aimed at combating global warming among participating countries. In some cases, such as with the European Community (EC), agreements span trade, the environment, labor, and many other subjects related to business, social, and environmental issues. The Atlanta Agreement, in turn, is an agreement between participating governments and companies to eliminate child labor in the production of soccer balls in Pakistan. [5] Finally, supraorganizations such as the United Nations (UN) or the World Trade Organization (WTO) are practically separate governments themselves, with certain powers over all member countries. [6]

Nongovernmental Organizations

National nongovernmental organizations (NGOs) include any nonprofit, voluntary citizens' groups that are organized on a local, national, or international level. International NGOs (NGOs whose operations cross borders) date back to at least 1839. [7] For example, Rotary International was founded in 1905. It has been estimated that, by 1914, there were 1,083 NGOs. [8]International NGOs were important in the antislavery movement and the movement for women's suffrage, but the phrase "nongovernmental organization" didn't enter the common lexicon until 1945, when the UN was established along with the provisions in Article 71 of Chapter 10 of the UN charter, [9], which granted a consultative role to organizations that are neither governments nor member states.

During the twentieth century, globalization actually fostered the development of NGOs because many problems couldn't be solved within a single nation. In addition, international treaties and organizations, such as the WTO, were perceived by human rights activists as being too centered on the interests of business. Some argued that in an attempt to counterbalance this trend, NGOs were formed to emphasize humanitarian issues, developmental aid, and sustainable development. A prominent example of this is the World Social Forum—a rival convention to the World Economic Forum held every January in Davos, Switzerland.

KEY TAKEAWAYS

- International businesses take on a variety of forms. Importers sell goods and services obtained from other countries, while exporters sell goods and services from their home country abroad.
- Firms can also make choices about the extent and structure of their foreign direct investments, from simply an array of satellite sales offices to integrated production, sales, and distribution centers in foreign countries.
- Government and nongovernmental organizations also comprise international business.

EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. What is the difference between an exporter and an importer?
2. What is a location advantage?
3. How is government considered an international business?

[1] "Investing in People, Investing for the Planet," SC Johnson, accessed November 21, 2010, http://www.scjohnson.com/en/commitment/report/CEO-Letter.aspx.

[2] "Ben & Jerry's," Unilever, accessed November 21, 2010,http://www.unileverusa.com/brands/foodbrands/benandjerrys.

[3] "Our Business Purpose," Amtrak, accessed November 21, 2010,http://www.aramark.com/AboutARAMARK/BusinessPurpose.

[4] Stephanie N. Mehta, "Behold the Server Farm! Glorious Temple of the Information Age!,"*Fortune*, August 1, 2006, accessed April 27, 2010,http://money.cnn.com/magazines/fortune/fortune_archive/2006/08/07/8382587/index.htm.

[5] "Atlanta Agreement," Independent Monitoring Association for Child Labor, accessed November 12, 2010, http://www.imacpak.org/atlanta.htm.

[6] United Nations website, accessed January 20, 2010, http://www.un.org; World Trade Organization website, accessed January 20, 2010, http://www.wto.org.

[7] Steve Charnovitz, "Two Centuries of Participation: NGOs and International Governance," *Michigan Journal of International Law* 18, no. 183 (Winter 1997): 183–286.

[8] Oliver P. Richmond and Henry F. Carey, eds., *Subcontracting Peace: The Challenges of NGO Peacebuilding* (Burlington, VT: Ashgate, 2005), 21; United Nations, "Chapter X: The Economic and Social

Council," *Charter of the United Nations*, accessed April 28,

2010,http://www.un.org/en/documents/charter/chapter10.shtml.

[9] United Nations, "Chapter X: The Economic and Social Council," *Charter of the United Nations*, accessed April 28,

2010,http://www.un.org/en/documents/charter/chapter10.shtml.

1.4 The Globalization Debate

LEARNING OBJECTIVES

1. Understand the flattening world perspective in the globalization debate.
2. Understand the multidomestic perspective in the globalization debate.
3. Know the dimensions of the CAGE analytical framework.

In today's global economy, everyone is accustomed to buying goods from other countries—electronics from Taiwan, vegetables from Mexico, clothing from China, cars from Korea, and skirts from India. Most modern shoppers take the "Made in [a foreign country]" stickers on their products for granted. Long-distance commerce wasn't always this common, although foreign trade—the movement of goods from one geographic region to another—has been a key factor in human affairs since prehistoric times. Thousands of years ago, merchants transported only the most precious items—silk, gold and other precious metals and jewels, spices, porcelains, and medicines—via ancient, extended land and sea trade routes, including the famed Silk Road through central Asia. Moving goods great distances was simply too hard and costly to waste the effort on ordinary products, although people often carted grain and other foods over shorter distances from farms to market towns. [1]

What is the globalization debate? Well, it's not so much a debate as it is a stark difference of opinion on how the internationalization of businesses is affecting countries' cultural, consumer, and national identities—and whether these changes are desirable. For instance, the ubiquity of such food purveyors as Coca-Cola and McDonald's in practically every country reflects the fact that some consumer tastes are converging, though at the likely expense of local beverages and foods. Remember, globalization refers to the shift toward a more interdependent and integrated global economy. This shift is fueled largely by (1) declining trade and investment barriers and (2) new technologies, such as the Internet. The globalization debate surrounds whether and how fast markets are actually merging together.

We Live in a Flat World

The flat-world view is largely credited to Thomas Friedman and his 2005 best seller, *The World Is Flat*. Although the next section provides you with an alternative way of thinking about the world (a multidomestic view), it is nonetheless important to understand the flat-world perspective. Friedman

covers the world for the *New York Times*, and his access to important local authorities, corporate executives, local *Times* bureaus and researchers, the Internet, and a voice recorder enabled him to compile a huge amount of information. Many people consider globalization a modern phenomenon, but according to Friedman, this is its third stage. The first stage of global development, what Friedman calls "Globalization 1.0," started with Columbus's discovery of the New World and ran from 1492 to about 1800. Driven by nationalism and religion, this lengthy stage was characterized by how much industrial power countries could produce and apply.

"Globalization 2.0," from about 1800 to 2000, was disrupted by the Great Depression and both World Wars and was largely shaped by the emerging power of huge, multinational corporations. Globalization 2.0 grew with the European mercantile stock companies as they expanded in search of new markets, cheap labor, and raw materials. It continued with subsequent advances in sea and rail transportation. This period saw the introduction of modern communications and cheaper shipping costs. "Globalization 3.0" began around 2000, with advances in global electronic interconnectivity that allowed individuals to communicate as never before.

In Globalization 1.0, nations dominated global expansion. Globalization 2.0 was driven by the ascension of multinational companies, which pushed global development. In Globalization 3.0, major software advances have allowed an unprecedented number of people worldwide to work together with unlimited potential.

The Mumbai Taxman

What shape will globalization take in the third phase? Friedman asks us to consider the friendly local accountants who do your taxes. They can easily outsource your work via a server to a tax team in Mumbai, India. This increasingly popular outsourcing trend has its benefits. As Friedman notes, in 2003, about 25,000 US tax returns were done in India. [2] By 2004, it was some 100,000 returns, with 400,000 anticipated in 2005. A software program specifically designed to let midsized US tax firms outsource their files enabled this development, giving better job prospects to the 70,000 accounting students who

graduate annually in India. At a starting salary of $100 per month, these accountants are completing US returns and competing with US tax preparers.

Chris C. Got It Wrong?

In 1492, Christopher Columbus set sail for India, going west. He had the Niña, the Pinta, and the Santa María. He never did find India, but he called the people he met "Indians" and came home and reported to his king and queen: "The world is round." I set off for India 512 years later. I knew just which direction I was going in—I went east. I was in Lufthansa business class, and I came home and reported only to my wife and only in a whisper: "The world is flat."

And therein lies a tale of technology and geoeconomics that is fundamentally reshaping our lives—much, much more quickly than many people realize. It all happened while we were sleeping, or rather while we were focused on 9/11, the dot-com bust, and Enron—which even prompted some to wonder whether globalization was over. Actually, just the opposite was true, which is why it's time to wake up and prepare ourselves for this flat world, because others already are, and there is no time to waste. [3]

This job competition is not restricted to accountants. Companies can outsource any service or business that can be broken down to its key components and converted to computerized operations. This includes everything from making restaurant reservations to reporting corporate earnings to reading x-rays. And it doesn't stop at basic services. With the "globalization of innovation," multinationals in India are filing increasing numbers of US patent applications, ranging from aircraft-engine designs to transportation systems and microprocessor chips. Japanese-speaking Chinese nationals in Dailian, China, now answer call-center questions from Japanese consumers. Due to Dailian's location near Japan and Korea, as well as its numerous universities, hospitals, and golf courses, some 2,800 Japanese companies outsource operations there. While many companies are outsourcing to other countries, some are using "home sourcing"—allowing people to work at home. JetBlue uses home sourcing for reservation clerks. Today, about 16 percent of the US workforce works from home. In many ways, outsourcing and home sourcing are related; both allow people to work from anywhere.

How the World Got Flat

Friedman identifies ten major events that helped reshape the modern world and make it flat: [4]

1. **11/9/89: When the walls came down and the windows went up.** The fall of the Berlin Wall ended old-style communism and planned economies. Capitalism ascended.
2. **8/9/95: When Netscape went public.** Internet browsing and e-mail helped propel the Internet by making it commercially viable and user friendly.
3. **Work-flow software: Let's do lunch. Have your application talk to my application.** With more powerful, easier-to-use software and improved connectivity, more people can share work. Thus, complex projects with more interdependent parts can be worked on collaboratively from anywhere.
4. **Open-sourcing: Self-organizing, collaborative communities.** Providing basic software online for free gives everyone source code, thus accelerating collaboration and software development.
5. **Outsourcing: Y2K.** The Internet lets firms use employees worldwide and send specific work to the most qualified, cheapest labor, wherever it is. Enter India, with educated and talented people who work at a fraction of US or European wages. Indian technicians and software experts built an international reputation during the Y2K millennium event. The feared computer-system breakdown never happened, but the Indian IT industry began handling e-commerce and related businesses worldwide.
6. **Offshoring: Running with gazelles, eating with lions.** When it comes to jobs leaving and factories being built in cheaper places, people think of China, Malaysia, Thailand, Mexico, Ireland, Brazil, and Vietnam. But going offshore isn't just moving part of a manufacturing or service process. It means creating a new business model to make more goods for non-US sale, thus increasing US exports.
7. **Supply-chaining: Eating sushi in Arkansas.** Walmart demonstrates that improved acquisition and distribution can lower costs and make suppliers boost quality.
8. **Insourcing: What the guys in funny brown shorts are really doing.** This kind of service collaboration happens when firms devise new service combinations to improve service. Take United Parcel Service (UPS). The "brown" company delivers packages globally, but it also repairs Toshiba

computers and organizes delivery routes for Papa John's pizza. With insourcing, UPS uses its logistics expertise to help clients create new businesses.

9. **Informing: Google, Yahoo!, MSN Web Search.** Google revolutionized information searching. Its users conduct some one billion searches annually. This search methodology and the wide access to knowledge on the Internet transforms information into a commodity people can use to spawn entirely new businesses.
10. **The steroids: Digital, mobile, personal, and virtual.** Technological advances range from wireless communication to processing, resulting in extremely powerful computing capability and transmission. One new Intel chip processes some 11 million instructions per second (MIPS), compared to 60,000 MIPS in 1971.

These ten factors had powerful roles in making the world smaller, but each worked in isolation until, Freidman writes, the convergence of three more powerful forces: (1) new software and increased public familiarity with the Internet, (2) the incorporation of that knowledge into business and personal communication, and (3) the market influx of billions of people from Asia and the former Soviet Union who want to become more prosperous—fast. Converging, these factors generated their own critical mass. The benefits of each event became greater as it merged with another event. Increased global collaboration by talented people without regard to geographic boundaries, language, or time zones created opportunity for billions of people.

Political allegiances are also shifting. While critics say outsourcing costs US jobs, it can also work the other way. When the state of Indiana bid for a new contract to overhaul its employment claims processing system, a computer firm in India won. The company's bid would have saved Indiana $8 million, but local political forces made the state cancel the contract. In such situations, the line between the exploited and the exploiter becomes blurred.

Corporate nationality is also blurring. Hewlett-Packard (HP) is based in California, but it has employees in 178 countries. HP manufactures parts wherever it's cheapest to do so. Multinationals like HP do what's

best for them, not what's best for their home countries. This leads to critical issues about job loss versus the benefits of globalization.

Since the world's flattening can't be stopped, new workers and those facing dislocation should refine their skills and capitalize on new opportunities. One key is to become an expert in a job that can't be delegated offshore. This ranges from local barbers and plumbers to professionals such as surgeons and specialized lawyers.

We Live in a Multidomestic World, Not a Flat One!

International business professor Pankaj Ghemawat takes strong issue with the view that the world is flat and instead espouses a world he characterizes as "semiglobalized" and "multidomestic." If the world were flat, international business and global strategy would be easy. According to Ghemawat, it would be domestic strategy applied to a bigger market. In the semiglobalized world, however, global strategy begins with noticing national differences. [5]

Ghemawat's research suggests that to study "barriers to cross-border economic activity" you will use a "CAGE" analysis. The CAGE framework covers these four factors: [6]

1. **Culture.** Generally, cultural differences between two countries reduce their economic exchange. Culture refers to a people's norms, common beliefs, and practices. Cultural distance refers to differences based in language, norms, national or ethnic identity, levels of trust, tolerance, respect for entrepreneurship and social networks, or other country-specific qualities. Some products have a strong national identification, such as the Molson beer company in Canada (see Molson's "I am Canadian" ad campaign). [7] Conversely, genetically modified foods (GMOs) are commonly accepted in North America but highly disdained in Western Europe. Such cultural distance for GMOs would make it easier to sell GMO corn in the United States but impossible to sell in Germany. Some differences are surprisingly specific (such as the Chinese dislike of dark beverages, which Coca-Cola marketers discovered too late).
2. **Administration.** Bilateral trade flows show that administratively similar countries trade much more with each other. Administrative distance refers to historical governmental ties, such as

those between India and the United Kingdom. This makes sense; they have the same sorts of laws, regulations, institutions, and policies. Membership in the same trading block is also a key similarity. Conversely, the greater the administrative differences between nations, the more difficult the trading relationship—whether at the national or corporate level. It can also refer simply to the level and nature of government involvement in one industry versus another. Farming, for instance, is subsidized in many countries, and this creates similar conditions.

3. **Geography.** This is perhaps the most obvious difference between countries. You can see that the market for a product in Los Angeles is separated from the market for that same product in Singapore by thousands of miles. Generally, as distance goes up, trade goes down, since distance usually increases the cost of transportation. Geographic differences also include time zones, access to ocean ports, shared borders, topography, and climate. You may recall from the opening case that even Google was affected by geographic distance when it felt the speed of the Internet connection to Google.com was slowed down because the Chinese were accessing server farms in other countries, as none were set up in China (prior to the setup of Google.cn).
4. **Economics.** Economic distance refers to differences in demographic and socioeconomic conditions. The most obvious economic difference between countries is size (as compared by gross domestic product, or GDP). Another is per capita income. This distance is likely to have the greatest effect when (1) the nature of demand varies with income level, (2) economies of scale are limited, (3) cost differences are significant, (4) the distribution or business systems are different, or (5) organizations have to be highly responsive to their customers' concerns. Disassembling a company's economy reveals other differences, such as labor costs, capital costs, human capital (e.g., education or skills), land value, cheap natural resources, transportation networks, communication infrastructure, and access to capital.

Each of these CAGE dimensions shares the common notion of distance. CAGE differences are likely to matter most when the CAGE distance is great. That is, when CAGE differences are small, there will likely be a greater opportunity to see business being conducted across borders. A CAGE analysis also requires examining an organization's particular industry and products in each of these areas. When looking at culture, consider how culturally sensitive the products are. When looking at administration, consider

whether other countries coddle certain industries or support "national champions." When looking at geography, consider whether products will survive in a different climate. When looking at economics, consider such issues as the effect of per capita income on demand.

An Amusing Anecdote

Pankaj Ghemawat provides this anecdote in partial support of his multidomestic (or anti-flat-world) view. "It takes an aroused man to make a chicken affectionate" is probably not the best marketing slogan ever devised. But that's the one Perdue Chicken used to market its fryers in Mexico. Mexicans were nonplussed, to say the least, and probably wondered what was going on in founder Frank Perdue's henhouse. How did the slogan get approved? Simple: it's a literal translation of Perdue's more appetizing North American slogan "It takes a tough man to make a tender chicken." As Perdue discovered, at least through his experience with the literal translation of his company motto into Spanish, cultural and economic globalization have yet to arrive. Consider the market for capital. Some say capital "knows no boundaries." Recent data, however, suggests capital knows its geography quite well and is sticking close to home. For every dollar of capital investment globally, only a dime comes from firms investing "outside their home countries." For every $100 US investors put in the stock market, they spend $15 on international stocks. For every one hundred students in Organisation for Economic Co-operation (OECD) universities, perhaps five are foreigners. These and other key measures of internationalization show that the world isn't flat. It's 90 percent round, like a rugby ball. [8]

While the world may not be flat, it is probably safe to say that it is flattening. We will use the CAGE framework throughout this book to better understand this evolving dynamic.

KEY TAKEAWAYS

- The globalization debate pits the opinions of Thomas Friedman against those of Pankaj Ghemawat. Their differing views help you better understand the context of international business. Through exposure to Friedman's ideas, you gain a better perspective on the forces, or "flatteners," that are making cross-border business more prominent.

- Ghemawat portrays a world that is "semiglobalized" and "multidomestic," where global strategy begins with noticing national differences.
- Ghemawat's CAGE framework covers four factors—culture, administration, geography, and economics.

EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. What are the basic tenets of the flat-world perspective?
2. Why does Ghemawat disagree with the flat-world perspective?
3. What are the four components of the CAGE analytical framework?

[1] William J. Bernstein, *A Splendid Exchange: How Trade Shaped the World* (New York: Atlantic Monthly Press, 2008).

[2] Thomas L. Friedman, *The World Is Flat* (New York: Farrar, Straus and Giroux, 2005).

[3] Thomas L. Friedman, "It's a Flat World, After All," *New York Times Magazine*, April 3, 2005, accessed June 2, 2010,http://www.nytimes.com/2005/04/03/magazine/03DOMINANCE.html.

[4] Thomas L. Friedman, *The World Is Flat* (New York: Farrar, Straus and Giroux, 2005), 48–159.

[5] Pankaj Ghemawat, "Distance Still Matters," *Harvard Business Review* 79, no. 8 (2001): 137–47.

[6] Pankaj Ghemawat, "Distance Still Matters," *Harvard Business Review* 79, no. 8 (2001): 137–47.

[7] "I Am Canadian," YouTube video, posted by "vinko," May 22, 2006, accessed May 4, 2011, http://www.youtube.com/watch?v=BRI-A3vakVg.

[8] Pankaj Ghemawat, *Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter* (Boston: Harvard Business School Press, 2007), 42.

1.5 Ethics and International Business

LEARNING OBJECTIVES

1. Learn about the field of ethics.
2. Gain a general understanding of business ethics.
3. See why business ethics might be more challenging in international settings.

A Framework for Ethical Decision Making

The relationship between ethics and international business is a deep, natural one. Definitions of ethics and ethical behavior seem to have strong historical and cultural roots that vary by country and region. The field of ethics is a branch of philosophy that seeks virtue. Ethics deals with morality about what is considered "right" and "wrong" behavior for people in various situations. While business ethics emerged as a field in the 1970s, *international* business ethics didn't arise until the late 1990s. Initially, it looked back on the international developments of the late 1970s and 1980s, such as the Bhopol disaster in India or the infant milk-formula debate in Africa. [1] Today, those who are interested in international business ethics and ethical behavior examine various kinds of business activities and ask, "Is the business conduct ethically right or wrong?"

While ethical decision making is tricky stuff, particularly regarding international business issues, it helps if you start with a specific decision-making framework, such as the one summarized from the Markkula Center for Applied Ethics at Santa Clara University. [2]

1. **Is it an ethical issue?** Being ethical doesn't always mean following the law. And just because something is possible, doesn't mean it's ethical—hence the global debates about biotechnology advances, such as cloning. Also, ethics and religion don't always concur. This is perhaps the trickiest stage in ethical decision making; sometimes the subtleties of the issue are above and beyond our knowledge and experience. Listen to your instincts—if it feels uncomfortable making the decision on your own, get others involved and use their collective knowledge and experience to make a more considered decision.
2. **Get the facts.** What do you know and, just as important, what don't you know? Who are the people affected by your decision? Have they been consulted? What are your options? Have you reviewed your options with someone you respect?

3. **Evaluate alternative actions.** There are different ethical approaches that may help you make the most ethical decision. For example, here are five approaches you can consider:
   a) **Utilitarian approach.** Which action results in the most good and least harm?
   b) **Rights-based approach.** Which action respects the rights of everyone involved?
   c) **Fairness or justice approach.** Which action treats people fairly?
   d) **Common good approach.** Which action contributes most to the quality of life of the people affected?
   e) **Virtue approach.** Which action embodies the character strengths you value?

   Test your decision. Could you comfortably explain your decision to your mother? To a man on the street? On television? If not, you may have to rethink your decision before you take action.

   Just do it—but what did you learn? Once you've made the decision, implement it. Then set a date to review your decision and make adjustments if necessary. Often decisions are made with the best information on hand at the time, but things change and your decision making needs to be flexible enough to change too. Even a complete about-face may be the most appropriate action later on.

Ethics in Action

You might know that almost 60 percent of the soccer balls in the world are made in the city of Sialkot, Pakistan. Historically, these balls were hand-stitched in peoples' homes, often using child labor. During the 1996 European Championships, the media brought attention to the 7,000 seven- to fourteen-year-old children working full time stitching balls. NGOs (nongovernmental organizations) and industry groups stepped up to take action. [3] UNICEF, the World Federation of the Sporting Goods Industry, the International Labour Organization (ILO), and the Sialkot Chamber of Commerce signed the Atlanta Agreement to eliminate the use of child labor in Pakistan's soccer ball industry. [4] The Atlanta Agreement got ball production out of the home and into stitching centers, which could be monitored more easily. This also led to the centralization of production in approved "stitching centers." On the one hand, the centers made it easier for the Independent Monitoring Association for Child Labor (IMAC)—an NGO created to watch over the Atlanta Agreement—to make sure no child labor was used. On the other hand, the centralization sometimes forced workers to commute farther to get to work. As a result, child labor has to a large extent disappeared from this sector. [5] Moreover, global fair-trade companies, such as GEPA, have

set up village-based stitching centers that solely employ women. [6] Custom and religion prohibit women from working with men in Pakistan, and the women-only soccer ball stitching centers give them an opportunity to have a job and improve their families' incomes.

What Ethics Is Not

Two of the biggest challenges to identifying ethical standards relate to questions about what the standards should be based on and how we apply those standards in specific situations. Experts on ethics agree that the identification of ethical standards can be very difficult, but they *have* reached some agreement on what ethics is *not*. At the same time, these areas of agreement suggest why it may be challenging to obtain consensus across countries and regions as to "what is ethical?" Let's look at this five-point excerpt from the Markkula Center for Applied Ethics at Santa Clara University about what ethics is not:

Ethics is not the same as feelings. Feelings provide important information for our ethical choices. Some people have highly developed habits that make them feel bad when they do something wrong, but many people feel good even though they are doing something wrong. And often our feelings will tell us it is uncomfortable to do the right thing if it is hard.

Ethics is not religion. Many people are not religious, but ethics applies to everyone. Most religions do advocate high ethical standards but sometimes do not address all the types of problems we face.
Ethics is not following the law. A good system of law does incorporate many ethical standards, but law can deviate from what is ethical. Law can become ethically corrupt, as some totalitarian regimes have made it. Law can be a function of power alone and designed to serve the interests of narrow groups. Law may have a difficult time designing or enforcing standards in some important areas, and may be slow to address new problems.

Ethics is not following culturally accepted norms. Some cultures are quite ethical, but others become corrupt—or blind to certain ethical concerns (as the United States was to slavery before the Civil War). "When in Rome, do as the Romans do" is not a satisfactory ethical standard.

Ethics is not science. Social and natural science can provide important data to help us make better ethical choices. But science alone does not tell us what we ought to do. Science may provide an explanation for what humans are like. But ethics provides reasons for how humans ought to act. And just because something is scientifically or technologically possible, it may not be ethical to do it. [7]

KEY TAKEAWAYS

- The subject of ethics is important in almost any context—be it medicine, science, law, or business. You learned a framework for ethical decision making as well as some opinions on what ethics is not.
- Many would argue that international business ethics can have a strong foundation in national culture. Some argue that ethics shouldn't follow culturally accepted norms. However, business managers should have a good understanding of which norms their ethical standards are based on and why and how they believe they should apply in other national contexts.

EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. To what does the term *business ethics* refer?
2. What are the five steps in the ethical decision-making framework?
3. What five areas have experts agreed are not ethics?

[1] Georges Enderle, ed., *International Business Ethics: Challenges and Approaches* (Notre Dame, IN: University of Notre Dame Press, 1999), 1.

[2] "A Framework for Thinking Ethically," Markkula Center for Applied Ethics, Santa Clara University, last modified May 2009, accessed January 26, 2010,http://www.scu.edu/ethics/practicing/decision/framework.html.

[3] "Child Labour Case Study," The Global Compact, accessed November 12, 2010,http://human-rights.unglobalcompact.org/case_studies/child-labour/child_labour/combating_child_labour_in_football_production.html.

[4] "Atlanta Agreement," Independent Monitoring Association for Child Labor, accessed November 12, 2010, http://www.imacpak.org/atlanta.htm.

[5] "Child Labour Eliminated in Manufacturing Soccer Balls," *The Nation*, April 19, 2010, accessed November 12, 2010, http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/Business/18-Apr-2010/Child-labour-eliminated-in-manufacturing-soccer-balls.

[6] GEPA website, accessed January 20, 2010,http://www.gepa.de/p/index.php/mID/1/lan/en.

[7] "A Framework for Thinking Ethically," Markkula Center for Applied Ethics, Santa Clara University, last modified May 2009, accessed January 26, 2010,http://www.scu.edu/ethics/practicing/decision/framework.html.

1.6 End-of-Chapter Questions and Exercises

These exercises are designed to ensure that the knowledge you gain from this book about international business meets the learning standards set out by the international Association to Advance Collegiate Schools of Business (AACSB International). [1] AACSB is the premier accrediting agency of collegiate business schools and accounting programs worldwide. It expects that you will gain knowledge in the areas of communication, ethical reasoning, analytical skills, use of information technology, multiculturalism and diversity, and reflective thinking.

EXPERIENTIAL EXERCISES

(AACSB: Communication, Use of Information Technology, Analytical Skills)

1. One of your friends plans to return to the family alfalfa farm in central California after college and has an idea to export a compressed form of alfalfa (alfalfa pellets) to be used as high-quality animal feed. Your friend knows that you are studying international business and has asked you for guidance. Prepare a summary for your friend of the issues that need to be considered; you can consult the "A Basic Guide to Exporting" series of webinars found on the globalEDGE website (http://globaledge.msu.edu). What other resources did you find helpful?
2. You like international business so much that you are inspired to start up an international business club at your school. While some of your classmates share this interest, you would like to start the club with strong membership numbers. Your teacher has agreed to give you ten minutes at the start of the next class to introduce your club idea and build support for it. You think that you can also use this presentation to build awareness of international business among students who might really enjoy the class and the topic if they knew more about it. Develop a ten-minute presentation that explains why you are passionate about international business, what international business people do, and what types of organizations are involved in international business.
3. You are browsing YouTube and come across the video "RMIT Business—International Business" (http://www.youtube.com/watch?v=jVmaBDalFsU). You share this video with your international business instructor. She is so impressed by the video that she asks you to develop a two- to three-minute video for your class that can be posted on YouTube as well. Adapt your presentation from Exercise 2 into a YouTube production and share it with your class.

Ethical Dilemmas

(AACSB: Ethical Reasoning, Multiculturalism, Reflective Thinking, Analytical Skills)

1. In Section 1.5 "Ethics and International Business", under the subhead "What Ethics Is Not," you read the statement "Ethics is not following culturally accepted norms." This is a tough statement as many argue that ethics is impacted by cultural values. What are some examples of culturally accepted norms from one country that challenge the ethical beliefs in another?
2. Giving gifts is an accepted and legal tradition in the Japanese business setting but is discouraged (and in some cases illegal) in the US business setting. Does this difference affect the competitive advantage of Japanese firms doing business in the United States or US firms doing business in Japan?

[1] The Association to Advance Collegiate Schools of Business website, accessed January 26, 2010, http://www.aacsb.edu.