PART 1 Globalisation

CHAPTER 1 GLOBALISATION

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# I. Chapter outline

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Introduction

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The globalisation of markets

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The emergence of global institutions

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Declining trade and investment barriers

The role of technological change

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The changing shape of the global economy

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The changing foreign direct investment picture

The changing nature of the multinational enterprise

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The global economy of the 21st century: The Emerging Markets Century?

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International business graduate attributes (IBGAs): Learning and assessment tasks

Closing case: Globalisation through the mobility of ideas and talent

# II. Chapter summary

**International Business Graduate Attributes (IBGAs)**

This chapter’s content, learning resources and case studies provide the opportunity to develop a number of International Business Graduate Attributes (IBGAs), including the following:

* IBGA1 Discipline Knowledge and Skills
* IBGA2 Critical Analysis
* IBGA5 Communication
* IBGA7 Global Perspective
* IBGA9 Citizenship

**Learning Objectives**

LO 1.1 Explain the process and drivers of globalisation and the opportunities and challenges it creates for business.

LO 1.2 Illustrate how the global economy has changed over the past 50 years.

LO 1.3 Justify the labelling of the 21st century as the emerging markets century.

LO 1.4 Debate the impact of globalisation on issues such as job security, income inequality and the environment.

LO 1.5 Compare how the management of international business differs from the management of domestic business.

**Chapter outline with lecture notes and teaching tips**

## Introduction

**Globalisation** refers to the trend towards a more integrated global economic system where barriers to cross-border trade and investment are declining, perceived distance is shrinking thanks to advances in transport and telecommunications, and material cultures are more similar across borders. The effects of globalisation can be seen everywhere, from the cars people drive and the food they eat to the jobs they work at and the clothes they wear. The 2007–09 Global Financial Crisis (GFC) highlights the extent of the integration and interdependence in the global economy.

*Teaching tip*: Students can readily identify global brand names of products from motor vehicles to convenience foods to music. The content of websites of multinational corporations illustrates both the causes and effects of globalisation. A video clip of a TV advertisement (such as one used to sell a motor vehicle in Australia and New Zealand but showing the vehicle with left-hand drive) provides a stimulus to discussion of the globalisation of business.

*Teaching tip*: The trend towards globalisation has not gone unnoticed at many universities around the world. An organisation called the Network of International Business Schools ([www.nibsnet.org](http://www.nibsnet.org)) provides a forum for universities and colleges with international business programs to discuss their curricula. Consider visiting this website and providing your students with some examples of how universities and colleges are integrating the realities of globalisation into their business curricula.

*Lecture note*: International organisations such as the Organisation for Economic Co-operation and Development (OECD, [www.oecd.org](http://www.oecd.org)) provide statistics relating to international trade, foreign investment and migration. The Australian Department of Foreign Affairs and Trade ([www.dfat.gov.au](http://www.dfat.gov.au/publications)) and the New Zealand Ministry of Foreign Affairs and Trade ([www.mfat.govt.nz](http://www.mfat.govt.nz)) maintain websites that provide information on international trade issues including statistics on trade between Australia and New Zealand and their trading partners.

B) The rapidly emerging global economy raises a multitude of issues for businesses, including all sorts of new opportunities for businesses to expand their revenues, drive down their costs and boost their profits. It also gives rise to challenges and threats, such as how best to expand into a foreign market; whether and how to customise product offerings, marketing policies, human resources practices and business strategies in order to deal with national differences in culture; and how best to deal with the threat posed by efficient foreign competitors entering the home marketplace.

C) Globalisation is also giving rise to new anxieties for people such as those in the Australian motor vehicle industry, who until recently felt fairly secure in their jobs. Thanks to advances in technology, lower transport costs and an increase in skilled workers in low-cost nations such as India, China and Eastern Europe, the practice of **offshoring** and trade in services have grown significantly.

D) The opening case on Boeing illustrates the complexities companies face when outsourcing manufacturing and production to foreign suppliers. Engaging suppliers to the point where 65 per cent of production of the 787 Dreamliner was produced offshore, while cost-effective, proved too risky for Boeing to continue unabated. Consequently, discussion of the case on the appropriate extent of engagement in globalisation in order to sustain international competitiveness, using the practices of outsourcing and offshoring, leads into the next topic on the globalisation of markets and the globalisation of production.

## What is globalisation?

A) **Globalisation** refers to the shift towards a more integrated and interdependent world economy.

The globalisation of markets

B) The **globalisation of markets** refers to the fact that in many industries historically distinct and separate national markets are merging into one huge global marketplace in which the tastes and preferences of consumers in different nations are beginning to converge upon some global norm. However, despite the global acceptance and prevalence of Toyota motor vehicles, McDonald’s hamburgers, Samsung phones, Apple iPads and the like, it is important not to push too far the view that national markets are giving way entirely to the global market, particularly in relation to consumer goods and services. There are still significant differences that frequently require that marketing strategies, product features and operating practices be customised or adapted in a particular country. Most telling is the way multinational companies confront each other as competitors in many global markets. Examples include Coca-Cola and PepsiCo in the soft drink market; Ford and Toyota in motor vehicles; Boeing and Airbus in aircraft; Nike and Adidas in sporting goods; and Caterpillar and Komatsu in earth-moving equipment. Such rivalry is far from ‘friendly’.

*Teaching tip*: The globalisation of markets has provided many opportunities and challenges for business organisations. This is true not only for multinational corporations, as minnow companies have shown success in international markets too. Ask students to compare and contrast how and on what basis they choose between competing brands as mentioned above (consumer perspective).

The globalisation of production

C) The **globalisation of production** refers to the tendency among many companies to source goods and services from different locations around the globe in an attempt to take advantage of national differences in the cost and quality of **factors of production** (such as land, labour, capital and energy), thereby allowing them to compete more effectively against their rivals. The examples of Boeing and Lenovo illustrate how production is dispersed. The international dispersal of production also occurs in the service sector (e.g. the radiology services provided by Nighthawk are dispersed internationally). While part of the rationale is based on costs and finding the best suppliers in the world, there are also other factors. In Boeing’s case, if it wishes to sell airliners to countries like China, these countries often demand that domestic companies be contracted to supply portions of the plane—otherwise they will find another supplier (Airbus) who is willing to support local industry. The internet has facilitated the globalisation of production.

## The emergence of global institutions

Over the past half-century, a number of global institutions have been created to help manage, regulate and police the global marketplace, as well as to promote the establishment of multinational treaties to govern the global business system. The **World Trade Organization (WTO)** is responsible for policing the world trading system and making sure that nations adhere to the rules established in WTO treaties such as the **General Agreement on Tariffs and Trade (GATT).** The **International Monetary Fund (IMF)** maintains order in the international monetary system, while the **World Bank** promotes economic development. The **United Nations (UN)** maintains international peace and security, develops friendly relations among nations, cooperates in solving international problems and promotes respect for human rights, as well as being a centre for harmonising the actions of nations (e.g. on climate change). The **United Nations Conference on Trade and Development (UNCTAD)**, a part of the UN system, focuses on issues related to developing nations.

*Teaching tip*: Climate change is an issue of global scale and is a current focus of the United Nations. Students could discuss how international business may be affected by the possible adverse effects of adaptation and mitigation strategies on economies and on the relations between countries. Students can explore the issues at the site of the United Nations Framework on Climate Change at <http://unfccc.int/2860.php>.

## Drivers of globalisation

A) Two macro factors seem to underlie the trend towards greater globalisation. The first is the decline in barriers to the free flow of goods, services and capital that has occurred since the end of World War Two; and the second is technological change.

Declining trade and investment barriers

B) After World War Two, the industrialised countries of the West started a process of removing barriers to the free flow of goods, services and capital between nations. Under GATT, over 100 nations negotiated even further decreases in tariffs and made significant progress on a number of non-tariff issues (e.g. intellectual property, trade in services). With the establishment of the WTO, a mechanism now exists for dispute resolution and the enforcement of trade laws. Talks that began in late 2001 and continue today, the on-again off-again Doha Round, were initially expected to last at least three years, and were focused on cutting tariffs on industrial goods, services and agricultural products; phasing out subsidies to agricultural producers; reducing barriers to cross-border investment; and limiting the use of antidumping laws.

*Teaching tip*: A comprehensive overview of GATT is available at [www.ciesin.org/TG/PI/TRADE/gatt.html](http://www.ciesin.org/TG/PI/%20TRADE/gatt.html).

*Teaching tip*: The WTO maintains an excellent website at [www.wto.org](http://www.wto.org/). This site provides information about recent trade disputes, emerging issues of international trade and the status of current talks.

*Teaching tip:* An interesting and informative site on WTO trade topics is available at:

www.wto.org/english/tratop\_e/tratop\_e.htm

C) This removal of barriers to trade has taken place in conjunction with increased **international trade** (the export of goods or services to consumers in another country), world output and foreign direct investment. WTO data shows that the volume of world merchandise trade has grown faster than the world economy since 1950, and has accelerated since the early 1980s. However, growth rates vary with global economic conditions, as was evident during the 2007–09 GFC.

D) The growth of **foreign direct investment** (the investing of resources and business activities outside a company’s home country) is a direct result of nations liberalising their regulations to allow foreign companies to invest in facilities and acquire local companies. With their investments, these foreign companies often also bring expertise and global connections that allow local operations to have a much broader reach than would be possible for a purely domestic company. FDI has tended to grow faster than world trade but the rate of growth is much more volatile.

*Lecture note*: The United Nations Conference on Trade and Development (UNCTAD) maintains an excellent site on data and issues relating to foreign investment, transnational corporations and foreign investment policies ([www.unctad.org](http://www.unctad.org)). One annual publication, *The World Investment Report*, is particularly useful.

The role of technological change

E) While the lowering of trade and investment barriers made globalisation of markets and production a theoretical possibility, technological change made it a tangible reality.

*Microprocessors and telecommunications*

F) Since the end of World War II, there have been major advances in communications and information processing.

G) **Moore’s Law** predicts that the power of microprocessor technology doubles and its cost of production falls by half every 18 months. As this happens, the cost of global communication plummets, lowering the cost of coordinating and controlling a global organisation.

*The internet*

H) The internet, which has experienced explosive growth worldwide, continues to promise development of the information backbone in tomorrow’s global economy. In 2014 there were around 2.8 billion internet users,representing39 per cent population penetration(www.instore.rs/public\_content/media/dokumenti/2015/Internet\_Trends\_2015.pdf).

I) The internet is seen as an equaliser, in that it reduces some of the constraints such as location, scale and time zones that typically limit global expansion by companies.

*Lecture note*: For data on the take-up of ICT and the direct and indirect social and economic effects on industries and economies, visit the website of the International Telecommunications Union, an agency of the United Nations, and in particular the report ***World Telecommunication/ICT Development Report 2012: Measuring ICT for social and economic development* (**[www.itu.int/en/ITU-D/Statistics/Documents/publications/mis2012/MIS2012\_without\_Annex\_4.pdf](http://www.itu.int/en/ITU-D/Statistics/Documents/publications/mis2012/MIS2012_without_%20Annex_4.pdf))**.**

*Transport technology*

J) In addition to these developments, several major innovations in transport technology have occurred since World War II. In economic terms, the most important are probably the development of commercial jet aircraft and super-freighters, and the introduction of containerisation, which greatly simplifies trans-shipment from one mode of transport to another.

*Implications for the globalisation of production and markets*

K) Improvements in transport technology, including jet transport, temperature-controlled containerised shipping and coordinated ship–rail–truck systems, have made companies better able to respond to international customer demands. The internet has been a major force in facilitating international trade in services.

L) As a consequence of these trends, a manager in today’s company operates in an environment that offers more opportunities, but is also more complex and competitive than that faced a generation ago. People now work with individuals and companies from many countries, and while communications technology and the universality of English as the language of business have decreased the absolute level of cultural difficulties individuals face, the frequency with which they face intercultural and international challenges has increased.

## The changing shape of the global economy

A) Hand in hand with the trend towards globalisation has been a dramatic change in the shape of the global economy. As late as the 1960s, four stylised facts described the character of the global economy. The first was the US dominance in the world economy. The second was the US dominance of the world trade picture. The third was the dominance of large, multinational US companies on the international business scene. The fourth was that roughly half of the globe—the centrally planned economies of the Communist world—was off-limits to Western international business.

The changing world output and world trade picture

B) In the early 1960s, the US was still by far the world’s dominant industrial power. In 1963, for example, the US accounted for 40.3 per cent of world manufacturing output. However, by 2011 it accounted for only 19.1 per cent. This decline in the US position was not an absolute decline; rather, it was a relative decline, reflecting the faster economic growth of several other economies, most notably that of Japan. By the 1990s, a tripolar pattern of dominance had emerged, with the US, Western Europe and Japan being the major economic powers.

C) Given the rapid economic growth now being experienced by countries such as Brazil, China and India, further relative decline in the US, Japanese and Western European shares of world output and world exports seems likely.

D) If we look 20 years into the future, most forecasts now predict a rapid rise in the share of world output accounted for by developing nations such as Brazil, Russia, China, India, Indonesia, Thailand and South Korea, and a commensurate decline in the share enjoyed by rich industrialised countries such as Britain, Japan and the US.

The changing foreign direct investment picture

E) As shown in Table 1.2 and Figure 1.3, the share of world output generated by developed countries has been on the decline since the 1960s, as the **stock** (total cumulative value of foreign investments) generated by these rich industrial countries has been also on a steady decline. This trend is expected to continue. The growth in the political significance of the **Group of Twenty** relative to that of the **Group of Eight** is a reflection of the growing relative strength of the economies of countries as the **BRIC** group. The recent rapid growth of s**overeign wealth funds** as a source of FDI has added a new dimension to the FDI picture.

F) Similarly, as shown in Figures 1.4 and 1.5, there has been sustained growth in cross-border flows of foreign direct investment, and the flow of foreign direct investment (amounts invested across national borders each year) has been directed at developing nations, especially China.

The changing nature of the multinational enterprise

G) A **multinational enterprise** is any business that has productive activities in two or more countries.

*Multinationals*

H) The globalisation of the world economy, together with the rise of Japan to the top ranks of economic power, has resulted in a relative decline in the dominance of US and UK companies in the global marketplace. Looking to the future, we can reasonably expect the growth of new multinational enterprises from the world’s developing nations, continuing a trend started by the newly developed countries such as South Korea that can now list three of its MNEs among the world’s largest 100 companies.

*Teaching tip*: Students may be able to trace the change in rankings of the world’s largest multinational non-financial corporations by examining UNCTAD’s annual *World Investment Report* ([www.unctad.org](http://www.unctad.org)).

*The rise of mini-multinationals*

I) Another trend in international business has been the growth of medium-sized and small multinationals. These businesses are referred to as mini-multinationals. The internationalisation process of international new ventures (INVs), or ‘born globals’, is examined in Chapter 2.

The changing world order

J) The collapse of Communism in Eastern Europe represented a host of export and investment opportunities for Western businesses. With opportunities there are also substantial risks associated with the instability created by the economic and political reforms. Authoritarian governments persist in many of these former Communist countries.

K) The economic development of China presents huge opportunities and risks, in spite of its continued Communist control. In addition, companies must be aware of the rising competitive threat posed by emerging MNEs from developing countries such as China.

L) The growth and market reforms in India, Central Europe and Latin America also present tremendous new opportunities both as markets and sources of materials and production. To this point in time, the dominant ideology underpinning these reforms has been one of free markets, private ownership and reduced government regulation. The events of the 2007–09 GFC along with the success of the authoritarian model of China, however, have brought into question the efficacy of such a model.

The global economy of the 21st century: The emerging markets century?

M) The path to full economic liberalisation and open markets is not without obstruction. Economic crises in Latin America, South-East Asia and Russia caused difficulties in 1997 and 1998, as did the 2007–09 GFC. In some countries in Central Europe and Latin America there has been a retreat from political and economic liberalisation. While companies must be prepared to take advantage of an ever more integrated global economy, they must also prepare for political and economic disruptions that may throw their plans into disarray.

*Lecture note*: For an overview of the outlook in Europe by 2014, see:

<http://www.goldmansachs.com/our-thinking/archive/2014-outlook-europe-index.html>

The journal *Emerging Markets* also includes some interesting articles of relevance:

[www.kentlaw.edu/faculty/rwarner/classes/emergingmarkets](http://www.kentlaw.edu/faculty/rwarner/classes/emergingmarkets/).

*Teaching tip:* The efficacy of the interventions undertaken by the governments of Australia, the USA, the UK and Germany during the 2007–09 GFC provides a rich source of debate about an appropriate role of government in a market-capitalist model and the possible impacts on international business and the progress of globalisation in general. Such debate has spawned investment protectionist sentiment. Will this spell the will to de-globalise and re-orient economies away from global markets and global production chains? Time will tell. For now, this leads logically into the next section on the globalisation debate.

## The globalisation debate

A) Is the shift towards a more integrated and interdependent global economy a good thing? While many economists, politicians and business leaders seem to think so, globalisation is not without its critics. Globalisation stimulates economic growth, raises the incomes of consumers and helps to create jobs in all countries that choose to participate in the global economy. Yet there is a rising tide of opposition to globalisation.

Anti-globalisation protests

B) Since 1999, when protesters against globalisation targeted the WTO meeting in Seattle, anti-globalisation protesters have turned up at almost every major meeting of a global institution. Protesters fear that globalisation is forever changing the world in a negative way. However, despite their protests, most citizens seem to welcome the higher living standards that progress brings.

*Lecture note*: Oxfam’s website, and particularly its Policy and Research section, is a rich source of material critiquing globalisation from a development perspective (www.oxfam.org/en/research). The IMF’s quarterly magazine *Finance and Development* also includes articles that canvass issues relating to globalisation and the conditions for positive development outcomes

[(www.imf.org/external/pubs/ft/fandd/fda.htm](http://www.imf.org/external/pubs/ft/fandd/fda.htm)).

Globalisation, jobs and income inequality

C) In developed countries, labour leaders lament the offshoring of well-paying jobs to low-wage countries. However, supporters of globalisation argue that free trade will result in countries specialising in the production of those goods and services that they can produce most efficiently, while importing goods and services that they cannot produce as efficiently. Free-trade advocates suggest that despite some job dislocation, the whole economy is better off with free trade, and that jobs are created through increased exports. They make a similar argument to support the outsourcing of services such as call centres to low-wage countries. The income gap between high-wage and low-wage jobs has increased over time, but there is no clear evidence that this growing inequality is due to globalisation.

*Teaching tip*: There is a significant part in this section that can be emphasised, which is about offshoring jobs to other parts of the world. The net effect on jobs from offshoring results in two opposing effects: the ‘relocation’ effect and the ‘scale’ effect. When jobs are offshored, such as back-office bank jobs, this is the relocation effect. When this move results in greater productivity and efficiency, this is regarded as the scale effect. It’s an entanglement issue, because it’s difficult to predict which tasks are likely to be ‘offshoreable’ or ‘onshoreable’ and whether the desired results will ever be realised.

Globalisation, labour policies and the environment

D) A second source of concern is that free trade encourages companies from advanced nations to move manufacturing facilities offshore to less-developed countries that lack adequate regulations to protect labour and the environment from abuse by unscrupulous multinational enterprises (MNEs)—‘a race to the bottom’ in terms of regulatory practices and standards. Globalisation has also been seen as a cause of global warming and climate change. Critics argue that it is a force of rapid, carbon-fuelled economic growth. Supporters of free trade and greater globalisation express serious doubts about these scenarios. They point out that tougher environmental regulation and stricter labour standards go hand in hand with economic progress. In general, as countries get richer, they enact tougher environmental and labour regulations.

E) Lower labour costs are only one of the reasons why a company might seek to expand in developing countries. These countries might also have lower standards on environmental controls and workplace safety. Nevertheless, since investment typically leads to higher living standards, there is often pressure to increase safety regulations to international levels. No country wants to be known for its poor record on health and human safety. Thus, supporters of globalisation argue that foreign investment often helps a country to raise its standards. In relation to climate change, they argue that the focus should not be on rolling back the trade liberalisation efforts that have fostered economic growth and globalisation, but on getting the nations of the world to agree to tougher standards on limiting carbon emissions and to police any possibility of tit-for-tat ‘green’ trade sanctions that would severely disrupt international business.

*Teaching tip*: There is a very good website on applied global business ethics at www.business-ethics.org. Ethics is examined in more detail in Chapter 8.

*Teaching tip*: The plight of the Pacific Islands threatened by global warming and rising sea levels provides a meaningful introduction to this topic.

Globalisation and national sovereignty

F) Another concern voiced by critics of globalisation is that in today’s increasingly interdependent global economy, economic power is shifting away from national governments and towards supranational organisations such as the WTO, the EU and the UN. As perceived by critics, the problem is that unelected bureaucrats are now sometimes able to impose policies on the democratically elected governments of nation-states, thereby undermining the sovereignty of those states. The rapid increase of FDI funded by the sovereign wealth funds (SWF) of authoritarian governments has raised security issues among Western democracies.

*Teaching tip*: Less-developed economies are concerned that many MNEs are much larger economic entities than they themselves are and, as a consequence, their unelected boards have more economic and political power than small elected governments. A debate on issues that may arise from this imbalance can be stimulated by comparing the economic size of MNEs to the GNP of developing economies. Data are available from the World Bank’s annual World Development Report and associated indicators ([www.worldbank.org](http://www.worldbank.org)) and from UNCTAD’s annual *World Investment Report* (<http://unctad.org/en/pages/DIAE/World%20Investment%20Report/WIR-Series.aspx>x).

G) With the development of the WTO and other multilateral and regional organisations (such as the EU), the Australia–United States Free Trade Area and the Association of South-East Asian (ASEAN) countries and localities necessarily cede some authority over their actions.

Globalisation and the world’s poor

H) Critics of globalisation argue that over the past century the gap between rich and poor has become wider, and that the benefits of globalisation have not been shared equally. However, supporters of free trade suggest that the actions of governments have limited economic improvement in many countries. Debt may also be limiting growth in some countries. Today there are various efforts underway to encourage debt-relief programs.

## Managing in the global marketplace: what’s the difference?

A) An **international business** is any company that engages in international trade or investment.

B) As their organisations increasingly engage in cross-border trade and investment, managers need to recognise that the task of managing an international business (any company that engages in international trade or investment) differs from that of managing a purely domestic business in many ways. Countries differ in their cultures, political systems, economic systems, legal systems and levels of economic development.

C) These differences require that businesspeople vary their practices country by country, recognising what changes are required to operate effectively. However, it is necessary to strike a balance between adaptation and maintaining global consistency.

D) As a result of making local adaptations, the complexity of international business is clearly greater than that of a purely domestic company. Companies need to decide which countries to enter, what mode of entry to use and which countries to avoid. Rules and regulations also differ, as do currencies and languages.

E) Managing an international business is different from managing a purely domestic business for at least four reasons: 1) countries differ; 2) the range of problems any manager faces is greater and more complex; 3) an international business must find ways to work within the limits imposed by governmental intervention and the global trading system; and 4) international transactions require converting funds and being susceptible to exchange rate changes.

# III. Key terms

**Key terms**

Asian Infrastructure Investment Bank (AIIB)

BRIC

factors of production

foreign direct investment (FDI)

General Agreement on Tariffs and Trade (GATT)

globalisation

globalisation of markets

globalisation of production

Group of Eight (G8)

Group of Twenty (G20)

international business

International Monetary Fund (IMF)

international trade

Moore’s Law

multinational enterprise (MNE)

offshoring

outsourcing

sovereign wealth fund (SWF)

United Nations (UN)

United Nations Conference on Trade and Development (UNCTAD)

World Bank

World Trade Organization (WTO)

# IV. Chapter overview

This opening chapter introduces the reader to the concepts of globalisation and international trade and investment, and provides an introduction to the major issues that underlie these topics. The components of globalisation are discussed, along with the drivers of globalisation, arguing that they seem to be thrusting nation states towards a more tightly integrated global economy. With the nature of international business changing in response to the changing global economy, issues raised by rapid globalisation have impacted on what the role of the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO), have been able to achieve in lowering barriers to international trade and investment. The influence of technological change in facilitating globalisation is also discussed, along with the role of multinational companies in international business.

The chapter also describes the changing shape of the global economy, with a special emphasis on the increasingly important role of developing countries in global business. This discussion is complemented by a description of the changing world order leading into the 21st century. The chapter ends with a candid overview of the globalisation debate, pointing out that managing an international business differs from managing a domestic business, amidst challenges of country differences in marketing and management styles, as well as complexity related to intense competition, rules of international trade and monetary systems. It is the aim of the textbook to equip students with a broad understanding of the issues confronting international business managers, and the range of strategies and operating policies to compete more effectively in today’s rapidly emerging global economy.

# V. International Business Graduate Attributes (IBGAs): Learning and Assessment Tasks

## IBGA1: Discipline Knowledge and Skills

**1. Describe the shifts in the world economy over the past 30 years. Compare the implications of these shifts for international businesses based in a country of your choice.**

**The shifts**

Answer guide: The world economy has shifted dramatically over the past 30 years. As late as the 1980s, four stylised facts described the character of the global economy. The first was that the US was still dominant in the world economy and in world trade. The second was US dominance in the world foreign direct investment picture. Related to this, the third fact was the dominance of large, multinational US companies on the international business scene. The fourth was that roughly half of the globe—the centrally planned economies of the Communist world—was off-limits to Western international businesses. All of these characteristics have changed. Although the US remains the world’s dominant economic power, its share of world output and world exports has declined significantly with Japan and the EU (as a single entity) initially taking increasing shares. This trend does not reflect trouble in the US economy but rather reflects, in the first phase, the growth of Japan as an economic power and, in following phases, the growing industrialisation of countries such as Brazil, South Korea and Malaysia and, more recently, the rapid development of countries such as China and India. This trend is also reflected in the world foreign direct investment picture. As depicted in Table 1.2, the share of world output (or the stock of foreign direct investment) generated by developing countries has been steadily increasing, while the share of world output generated by rich industrial countries has been steadily declining. The United States and the integrated economies of the European Union, as a single entity, still dominate, but now China and India each contribute more to global production than any one of the Western European countries.

Shifts in the world economy can also be seen through the shifting power of multinational enterprises. Since the 1980s there have been two notable ongoing trends in the character of the multinational enterprise. The first has been the rise of non-US multinationals, particularly Japanese multinationals. The second has been the emergence of a growing number of small and medium-sized multinationals, called mini-multinationals. The fall of Communism in Eastern Europe and in the republics of the former Soviet Union have brought about the final shift in the world economy. Many of the former Communist nations of Europe and Asia seem to share a commitment to democratic politics and free-market economies. Similar developments have occurred in Latin America. If these trends continue, the opportunities for international business are enormous.

**Implications of the shifts**

The implications of these shifts are different for North America, Europe, Australia and Hong Kong. The US once had the luxury of being the dominant player in the world arena, with little substantive competition from the developing nations of the world. That has changed. Today, North American–based companies must compete with competitors from across the world to win orders. Australian-based companies face similar competition but have the advantage over their American rivals of being readily able to tap into the growth of Asian-sector industrialisation due to their location in the region and their access to a relative abundance of natural resources (by contrast to created resources).

The changing characteristics of the world economy also favour a region like Hong Kong. Hong Kong as part of China is well located with easy access to markets not only in China but also in Japan, South Korea, Indonesia and other Asian markets. Hong Kong has a vibrant labour force, an established industry and commercial infrastructure on par with the industrialised nations of the world. The decline in the influence of the North American companies on the global economy provides opportunities for companies in Australia and Hong Kong to aggressively pursue export markets and foreign investment opportunities in one of the fastest-growing regions of the world.

**Comparison of the implications**

On balance, these shifts in the world economy need to be viewed in context. It is not so much about the former dominance of the West and emerging dominance of the East, as that is too simplistic. Companies engaged in international business are not necessarily engaged in global business. Countries also differ in their size, culture, political systems, economic and legal systems and levels of economic growth and development. This ‘uneveness’ creates an us/them mentality by default and does not bode well for increased trade and, moreover, economic integration (see Chapter 3).

Companies are also intensely competitive and do not operate on a level playing field. Consequently, a small new start-up has nowhere near the resources, skills and experience of MNCs. In terms of production activities, offshoring and outsourcing by MNCs to lower-cost countries is done to minimise costs and maximise value to shareholders and customers. In contrast, small companies lack economies of scale and economies of scope in strategy and operations to compete in the same way. Additionally, choosing which foreign markets to enter and which to avoid is not simply about costs (see Chapter 9 on country market analysis). Several important issues arise depending on the country chosen to invest in, including the size (scale) and timing of the venture and the mode of entry decision. See Chapter 11 for more details.

**2. ‘The study of international business is fine if you are going to work in a large multinational enterprise, but it has no relevance for individuals who are going to work in smaller companies.’ Evaluate this statement.**

Answer guide: People who believe in this view, and the companies that they work for, may find that they do not achieve their full potential and may ultimately fail because of their myopia. As barriers to trade and investment decrease and state-of-the-art technological developments take place throughout the world, new opportunities and threats exist on a worldwide basis. The rise of mini-multinationals suggests there are global opportunities even for small companies. But staying attuned to international markets is not only important from the perspective of seeking profitable opportunities for small companies; it can also be critical for long-term competitive survival. Companies from other countries may be developing products that, if sold internationally, could wipe out small domestic competitors. Scanning international markets for the best suppliers is also important for small companies, for if a domestic competitor is able to tap into a superior supplier from a foreign country, it may be able to seriously erode a small company’s competitive position before the small company understands the source of its competitor’s competitive advantage and can take appropriate counteractions.

Domestic companies large and small are not immune to the forces of globalisation. This was evident following the domestic fallout on interest rates and credit availability flowing from the 2007–09 GFC (as a result of the global integration of financial markets), the global credit crisis and current global debt woes. The increase in global competition flowing from electronic business via the internet is another factor both large and small domestic companies need to manage going forward.

## IBGA5: Communication

**3. As a group, develop a two-sentence (maximum) definition of ‘globalisation’. As a starting point to your discussion, consider the following notions.**

**- Does globalisation simply mean internationalisation—the increase in cross-border trade, investment and migration?**

**- Does it mean liberalisation—the gradual removal of government-imposed restrictions on cross-border exchange?**

**- Or universalisation—as ideas spread around the world, do people’s aspirations and experiences become harmonised?**

**- Or Westernisation—the destruction of local identity and self-determination as capitalism, consumerism and industrialism spreads over the world?**

**- Or de-territorialisation—distance and territorial borders grow less significant and the world is conceived as a single place, as exemplified in such aspects as communications over the World Wide Web, multinational organisations, global products, foreign currency exchanges, climate change and religious affiliations?**

**These different concepts are drawn from J. Scholte, ‘Defining globalisation’, *World Economy*, 31(11) (November 2008). After the discussion and the task are completed, reflect on the behaviours in the group that facilitated the discussion and task completion.**

Globalisation refers to a fundamental shift that is occurring in the world economy.

There is a move from ‘isolation’ and ‘independence’, to ‘integration’ and ‘interdependence’.

This trend is commonly referred to as globalisation.

The benefits for businesses are the opportunity to expand their revenues, drive down their costs, and boost their profits. Previously ‘closed’ foreign markets are now ‘open for business.’ By producing more for less, it can help achieve further costs savings through the ‘economies of scale’ principle.

Globalisation has also created difficulties for business organisations. For example, issues related to entry and exit, as well as the motive and means, are first considerations. Second, should companies export, build a plant in a foreign country, or modify their products to suit the tastes of each of their foreign customers? How companies in the domestic market respond to foreign competition are additional issues that might come to light. Difficult questions such as these will be canvassed and answered throughout the unit in global business.

**4. Write a brief report, including suitable graphs and tables, that examines the rise of China and India in the global economy since 1970. Accessing data from organisations such as the OECD and the World Bank, particularly World Development Indicators, may prove a useful starting point.**

Answer guide: For trade statistics, see the databases of the World Trade Organization ([www.wto.org](http://www.wto.org)); for foreign exchange statistics, see the Bank of International Settlements ([www.bis.org](http://www.bis.org)).

China holds huge potential for aviation manufacturers. UNCTAD’s *World Investment Report 2012* ([www.unctad-docs.org/files/UNCTAD-WIR2012-Chapter-I-en.pdf](http://www.unctad-docs.org/files/UNCTAD-WIR2012-Chapter-I-en.pdf)) is facilitative in this regard.

See also the World Bank’s *Projects and Operations* *2012* (www.worldbank.org/projects).

The 2013 edition of *World Development Indicators* (WDI) includes a snapshot of near-historical data on global development, poverty, quality of life, the environment, the economy, the functioning of states and markets, and global links between finance, trade and migration. Tools to access, explore and interact with the WDI are available at <http://data.worldbank.org/wdi>, and include:

* the World Bank’s main data website ([http://data.worldbank.org](http://data.worldbank.org/))
* new tables (<http://wdi.worldbank.org/tables>)
* a free application (DataFinder) for tablets and mobile devices (<http://data.worldbank.org/apps>)
* the DataBank interface to the World Bank’s time-series databases, which enables users to create, save and share tables, charts and maps and embed them in blog posts and websites ([http://databank.worldbank.org](http://databank.worldbank.org/)).

Learn more about the WDI and other datasets, and discuss new ideas, at [http://datahelpdesk.worldbank.org](http://datahelpdesk.worldbank.org/).

Follow the latest news on the WDI and Open Data at [http://blogs.worldbank.org/opendata](http://blogs.worldbank.org/opendata/) and on Twitter at @WorldBankData.

## IBGA7: Global Perspective

**5. Identify a number of civil society groups or associations that are essentially global—for example, Oxfam. Many are concerned with issues of global justice and sustainable development. Outline their missions and goals. Assess the extent to which the issues they address and the actions they take transcend borders. Discuss the risks, if any, that these groups present to globalisation and international business.**

Answer guide:

**Oxfam**

**Mission and goals**

Oxfam Australia’s work is guided by policies which, at the broadest level, are developed by its board of management. The board’s Community Reference Committee (CRC) is responsible for consulting with supporters on policy issues, informing the board about supporters’ views, monitoring the effectiveness of existing policies and drafting new policies.

**Some of the issues and actions Oxfam takes**

Issues addressed by Oxfam are significant. Alongside fighting poverty and injustice with aid partners, they include aid development and emergency relief, for example when an environmental crisis such as a hurricane or earthquake occurs. Other examples include combating hunger and starvation because of drought or disease, ethical trading where corporations are held responsible for the human rights of individuals and communities, water sanitation and unsafe mining ventures.

**Assessment of the issues and actions taken**

In 2014–15, Oxfam’s 17 affiliates reached 25 million people in more than 85 countries around the world. Of that number, Oxfam Australia directly reached more than 5 million people: 2.3 million people through their 106 long-term development and advocacy projects (with the help of 525 partner organisations), and, in partnership with Oxfam affiliates, almost 3 million people who were affected by disaster or conflict.

The Oxfam Shop also works with more than 138 fair trade and ethical producer partners in 39 countries, including Australia. With generous supporters, families are growing more food, earning a living, accessing clean water and toilets, living healthier and safer lives, and having their voices heard. Their contribution has made a positive difference to the lives of people around the world. Where the money collected is distributed is shown diagrammatically below:



For every $1 Oxfam spends:

* 69 cents is used to directly support development, advocacy and humanitarian programs around the world;
* 20 cents is invested to generate future income;
* 11 cents is spent on essential administration.

The above ratio does not include Oxfam Shop’s fair trade and ethical producer partners.

Emergency appeals:

Oxfam spends at least 90 per cent of funds raised from emergency appeals on emergency response programs. The remaining 10 per cent covers costs associated with advertising and promoting their appeals, operating their toll-free phone room, processing and receipting donations and audit and financial accountability.

Why donations are so important

* 64 per cent comes from the community (residents)
* 30 per cent comes from the Department of Foreign Affairs and Trade
* 5 per cent comes from grants
* 1 per cent comes from other sources

Source: www.oxfam.org.au

**Risks to globalisation and international business**

The risk to globalisation and international business is the extent to which the economic benefits outweigh the costs of doing business in a country. In addition, the element of macroeconomic risk is the likelihood that changes in a country’s societal environment will affect the business context in a country; that is, that profit and other outcomes of a particular business will be adversely affected. There are many other risks that also need to be considered. They are macro- and micro-political risks, legal risk, ownership/control risk, operational risk and transfer (of funds) risk. See Chapter 7 for more details on these types of risk and what can be done about them.

**6. Successful international business managers are often described as possessing a ‘global mindset’. Outline what you think characterises an individual with a global mindset.**

Answer guide:Specifically,Gupta (2008) defines a global mindset as one that combines an openness to and awareness of diversity across cultures and markets with a propensity and ability to see common patterns across countries and markets. In a company with a global mindset, people view cultural and geographic diversity as opportunities to exploit and are prepared to adopt successful practices and good ideas wherever they come from. The twin forces of ideological change and technological revolution are making globalisation one of the most important issues facing companies today. As such, cultivating a global mindset is a prerequisite to becoming a global company. Companies exhibiting global mindsets include GE, P&E, Nestlé, Unilever and Colgate. (Source: Anil K Gupta, Vijay Govindarajan & Haiyan Wang, *The Quest For Global Dominance*, Jossey-Bass, 2008.)

More broadly, the global mindset concept has been studied and written about for decades. If you search for ‘global mindset’ online you’ll find many books on this topic.

Below are three of the many definitions that have been put forward.

A global mindset:

helps leaders see the world from multiple perspectives, make decisions that work *both* locally and globally, and increase the ability of their company to compete in the global marketplace (Baltzley & Beechler, 2009)

is the ability to influence individuals, groups, organizations, and systems that are unlike the leader’s(Javidan, 2008)

is an openness to and awareness of diversity, with a propensity and ability to see common patterns across countries and markets (<http://lexicon.ft.com/Term?term=global-mindset>).

Based on insights gathered by researchers over decades, additional tenets are as follows.

The term ‘global mindset’ designates a constellation of mental, emotional and behavioural competencies. These competencies comprise an openness to engaging with, and an ability to come to completely understand, others from cultural backgrounds with which one is initially unfamiliar; the elimination of, or lessening of, ‘knee-jerk’ judgementalness with respect to the values and behaviour of others from unfamiliar backgrounds; and an eagerness and an ability to view the global marketplace and one’s own challenges within it from multiple value perspectives. These competencies can be learned or, if already possessed, can be further enhanced. Managers who have a global mindset are more likely to remain long term with a company that organisationally also has a global mindset, because in such a work environment the managers’ global competencies are valued and leveraged to provide them with ‘stretch’ global assignments (Grovewell Leadership Solutions, www.grovewell.com/intercultural-communication/global-mindset-development/global-mindset-the-concept).

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## IBGA9: Citizenship

**7. The internet is reaching further into all parts of the world, including developing countries. Outline how globalisation and international business have been affected by this increased connectivity, and speculate on the additional challenges and responsibilities confronting international business that are likely to arise from being an active participant in the ‘global village’.**

Answer guide: Despite the trends in the growth of the internet, we must be careful not to overemphasise its importance. While modern communication and transport technologies are ushering in the ‘global village’, significant national differences remain in culture, consumer preferences and business practices. For example, in competition with CNN and the BBC for global viewers is the influential Arab news and public affairs broadcaster Al Jazeera. Based in Qatar and owned by the Emirate of Qatar, this network reaches an estimated audience of 40 million and has uncensored independence, which is unusual for a broadcaster in the Arab world.

Suggesting that the creation of a global culture still has some way to go, to accommodate different cultural traditions Al Jazeera has two news operations: Al Jazeera Arabic and Al Jazeera English. The organisation itself has had to confront national cultural differences. The Al Jazeera English network is virtually locked out of the US. It can be accessed by the internet, but none of the major cable TV networks carry its programs: it is thought of as an ‘anti-American’ network. To gain a foothold in the US, Al Jazeera was forced to acquire its own, albeit small, cable network. A company that ignores differences between countries does so at its peril.

**8. Read ‘Who makes the Apple iPhone?’ What are the potential ethical problems associated with outsourcing assembly jobs to Foxconn in China? Speculate how Apple might deal with these issues.**

Answer guide: Potential ethical issues of outsourcing to China relate to the loss of jobs in the home market, income tax and lost company tax enjoyed by the home nation and other investment spin-offs through having a multinational corporation in the home market that develops skills at home and also has links to other supporting industries. Acceding to the lower wage rates and potentially poorer working conditions for the mainly less-skilled workers in manufacturing assembly in the Chinese subcontractor locations does little for the economic development or advancement of those workers.

Apple could take the approach of Boeing (see the Opening Case) and reconcile the sometimes conflicting relationship between its onshore and offshore activities, and in this way effectively introduce a more balanced approach to production manufacturing operations that have been heavily outsourced to date. This would help America’s faltering economy, while at the same time continue to help Apple in its FDI ventures overseas.

## IBGA1: Discipline Knowledge and Skills

## IBGA2: Critical Analysis

Refer to section ‘VII. Opening Case Analysis’.

# VI. Chapter vignettes

## Management Focus: The globalisation of production at Boeing

*Summary*

The Opening Case identifies how Boeing’s foreign suppliers—of whom there were only a few 45 years ago—now account for around 65 per cent of the value of its latest aircraft, the 787 Dreamliner. There are three reasons for this dramatic change. First, in the current climate, 80 per cent of Boeing’s customers are foreign airlines, and to sell to those nations it often helps to give business to them. Second, dispersing component production to the most capable ‘best-practice’ parts suppliers around the world is seen as an effective strategy. Third, outsourcing parts supply on the 787 has reduced some of the risks and costs associated with in-house production. Moreover, this strategy allows for the ‘higher-level’ strategic aspects—such as engineering design, marketing, sales and final assembly in Seattle—to be kept in-house.

However, outsourcing went too far, with Boeing experiencing problems in the production process such as production schedules not being met, parts manufacturing not coming together as well as envisioned, and occasional loss of suppliers due to delivery unreliability and quality standards not being met. Boeing has now addressed these issues and moved to produce a lot of its components in-house once again.

*Suggested discussion questions*

**1. Consider Boeing’s decision to outsource much of the production of the Dreamliner 787. What benefits does this strategy offer? What are the drawbacks? Discuss.**

Answer guide: The main benefits are:

* opportunities to work on the higher-level (strategic) aspects of engineering design and marketing when the lower-level operational activities in production manufacturing go offshore
* increased potential for sales to foreign investors having given them contracts to produce some of the parts
* lowering of costs to the business, potentially increasing the returns to shareholders.

The drawbacks are:

* principally, obtaining and maintaining supplier contacts and contracts in foreign markets is inherently difficult
* keeping quality standards uniform and consistently high needs constant close attention
* contract manufacturing gives the right of ‘hire and fire’ to the Chinese subcontractors, so that employment contracts, wages and conditions are outside the domain of the parent company to manage or influence.

**2. How has globalisation made Boeing’s approach to the production of the Dreamliner possible?**

Answer guide: Global supply chain management has been an effective driver in assisting Boeing to achieve introduction of the 787 Dreamliner. Without it, continued significant investment in skills and parts manufacturing would have needed to be done in the home market in the US. Achieving the position of ‘best in the world’ at performing a particular supplier activity (parts manufacturing) has been embraced by participating nations, which has enabled Boeing to compete on price with its main competitors. However, the decision to outsource the production of manufacturing parts to overseas suppliers has caused some upset within Boeing, such that a rebalancing of its global supply chain approach to strategy and operations has ensued. **Teaching Tip:** General information on Boeing. Go to: <https://www.boeing.com/company/general-info/>

**Lecture Note**: You may be keen to appreciate how Boeing builds an aeroplane in nine days. Go to: https://www.youtube.com/watch?v=liZ0WEEsuz4.

## Country Focus: China: Belt and Road Initiative

*Summary*

China, the world’s second largest economy, seeks to influence global economic and political order through the Belt and Road Initiative (BRI). According to the World Bank, the objective of this initiative is to enhance infrastructure, trade and investment links between China and participating countries. To facilitate the movement of goods along the trading routes, and to encourage cooperation and broader exchange between these nations, the Chinese government offers foreign aids, loans and investments to some countries in Asia and Africa to develop their infrastructure. Critics have argued that the Beijing government uses this initiative to advance its own interests.

*Suggested discussion questions*

**Discuss some of the controversies that were caused by the Belt and Road Initiative (BRI). Do you think countries use initiatives to advance their own interests?**

Critics have argued that China is taking advantage of poorer countries through the use of loans. This might result in heavy debt burdens, and political independence on the Chinese government. Also, it is questionable if the Belt and Road Initiative (BRI) will be benefiting China instead of participating nations. Many Western countries also view both the BRI and the Asian Infrastructure Investment Bank (AIIB) as means for the Chinese government to assert its geopolitical will through economic ways. Students should consider that powerful countries will always seek to advance their own interests, but hopefully they will also offer benefits to other nations, resulting in a ‘win-win’ result for all parties.

**Teaching Tip:** World Bank’s perspective on China Belt and Road initiative. Visit: www.worldbank.org/en/topic/regional-integration/brief/belt-and-road-initiative

**Teaching Tip**: SBS explains China’s Belt and Road initiative. Visit: www.sbs.com.au/news/explainer/what-chinas-belt-and-road-initiative

## Management Focus: Who makes the Apple iPhone?

*Summary*

This feature highlights the advantages of assembling Apple’s iPhone in China, which include lower labour costs resulting in lower production costs, size or scale advantages, quality standards being met and speed of delivery schedules also being met. Despite these advantages of outsourcing to China, several disadvantages relate to the poor working conditions for workers in several subcontractor locations. Efforts to reconcile the sometimes conflicting relationship between meeting efficiency measures and effectiveness outcomes are ongoing.

*Suggested discussion questions*

**1. Is it a necessary and sufficient condition that efficiency measures ‘win out’ over effectiveness outcomes?**

Discussion points: Elements in the efficiency paradigm are notably quantitative measures that are predominantly used in the financial and accounting disciplines under ratio analyses. These type of statistical measures help form judgements about revenue and costs with resulting profit and loss in the business. To maintain its competitive advantage in world markets, Apple looks at and uses these statistics very carefully. To continue to be ‘the best at what we do’ is expensive. Consumer demand for excellence continues to grow in expectation, but without the added expense. In other words, consumers want high quality at a low price. This is technically unachievable. Consequently, Apple’s move to offshoring and outsourcing production to China and other parts of the world is an effort to help achieve this mantle.

However, the effectiveness paradigm in the case of Apple’s production manufacturing offshore involves more qualitative measures and is harder to pin down or, in other words, to inculcate as a norm in the business. Examples for Apple might include how profits are distributed in the company and how new and existing customers of Apple are managed. In operations management it might be how response rates are recorded and measures on the fulfilment of orders achieved. Outcomes that arise from qualitative measures appear to be ‘off the radar’ in terms of importance to stakeholders, more than efficiency measures. It is not until something goes wrong that both come to the attention of the media, governments, customers and shareholders. In Apple’s case, there has been huge criticism about profiteering at the expense of human (labour) costs. Ideally, there needs to be a balance between efficiency and effectiveness. At the end of the day, it is Philip Kotler’s balance of ‘doing things right’ (efficiency) with its natural complement of ‘doing the right things’ (effectiveness) that is important to achieve here.

**2. What mechanism of competitive advantage can Apple continue to enjoy over its major rival Samsung?**

Discussion points: Competitiveness is a specific quality that enables a company to prosper in the marketplace despite the actions of its rivals. Many factors both internal and external to the company determine competitiveness. Some of the factors from within the company are product differentiation, new products, process redesign and innovation in the organisation. In Apple’s case, outside the company, sourcing a cluster of successful suppliers in China and in the Asia region, including a pool of skilled labour (engineers) as well as process workers, has led to the specialisation of business practices in manufacturing technologies.

## Emerging Markets: India’s IT software sector

*Summary*

This feature explores the growth of India’s information technology (IT) software industry. Starting from nothing just 30 years ago, the industry now generates revenues of nearly US$100 billion (if IT hardware is included) and exports of US$69 billion. With global spending on IT forecast to reach US$3.8 trillion in 2013 ([www.pcworld.com/article/2032528/global-tech-spending-forecast-to-hit-3-8-trillion-in-2013.html](http://www.pcworld.com/article/2032528/global-tech-spending-forecast-to-hit-3-8-trillion-in-2013.html)), Indian companies are primed to capture a significant share of the pie, forcing their Western counterparts to make changes to their strategies.

*Suggested discussion questions*

**1. What factors have contributed to the growth of India’s software industry?**

Discussion points: Four key factors have contributed to the growth of India’s software industry. First is the huge number of engineers in India. Some 400 000 engineers graduate from Indian universities every year. A second factor is India’s low wage structure. Indian engineers make about 12 per cent of what an Australian or American colleague might make. Third, coordination between Western companies and Indian companies is facilitated by the large number of English-speaking Indians. Finally, because of the differences in time zones, Indian companies operate while on the other side of the globe, American companies are closed.

**2. How has India’s software industry changed in recent years? What are the implications of these changes for American companies like IBM and Microsoft?**

Discussion points: There has been a gradual shift in the Indian software industry in recent years. Initially, Indian companies focused on the low end of the industry to supply basic software development and testing services to Western companies. Today, however, many companies have moved into higher-end services to compete for large software development projects, business outsourcing contracts and IT consulting services. This new competitive threat is forcing Western companies like IBM and Microsoft to rethink their global strategies. Some Western companies are now investing in India with the goal of capturing some of the cost advantages Indian companies like Infosys and Wipro enjoy.

**Teaching Tip**: The 2008–12 economic slowdown in the global economy has had an effect on India’s IT sector and on India’s economy more broadly. For more information, see for example [www.ijtef.org/papers/105-D10003.pdf](http://www.ijtef.org/papers/105-D10003.pdf); Sudhansh Kumar Sharma & Beena Sharma, 2014,‘Reflections on monetary and fiscal policies and economic growth in India’, *International Journal of Trade, Economics and Finance*, Vol. 5 (6), pp. 551–6; and [www.doingbusiness.org/data/exploreeconomies/india.](http://www.doingbusiness.org/data/exploreeconomies/india/) The first part of this latter article ranks the ease of doing business out of 189 economies and the distance to frontier measure overall and by topic. The second part summarises the key indicators for each topic, benchmarked against regional averages.

# VII. Opening Case Analysis: Kaihara: Globalisation of a *shinise*, a long-lived company

*Summary*

The Opening Case focuses on the internationalisation of Kaihara, a family-owned Japanese company that supplied high-quality denim to overseas markets. The organisation’s success in the competitive global markets was due to its focus on technology and innovation. For example, to meet the company’s customer Levi Strauss’ stringent requirements, Kaihara adopted a data-driven scientific method to control quality. The organisation also emphasises employee training and development. The employees are multi-skilled, and they are expected to continuously improve the company’s production process. Kaihara established a global supply chain to supply international customers, and to internationalise to sustain production capacity.

*Suggested discussion questions*

1. **From inception Kaihara focused on the high-end market segment. Discuss the merits of this strategy.**

This strategy allows Kaihara to compete with its domestic competitors, and to earn 20‒50 per cent price premium over its competitors’ products.

1. **Kaihara is a Japanese long-lived company. What factors contributed to its longevity?**

Kaihara focused on the high-end market segment to gain a competitive advantage over its domestic competitors. The company also invested in technology and innovation to produce high quality products; and to enhance its production capacity, and cost-effectiveness to meet both domestic and international markets. Kaihara also adapted to its changing external environment, and seized new markets. For example, the company ventured into denim production when there was a domestic market for jeans.

1. **Kaihara was a Japanese company that produced kasuri, a product focused on the Japanese market. However, it was able to achieve international success. Discuss the strategies behind its international success.**

Kaihara leveraged on its core competency—its technology—to gain a sustainable competitive advantage over its competitors in the global markets. The company’s innovation provided the organisation with the production capacity to meet overseas markets’ demands. Kaihara also invested in employee training. The employees are multi-skilled, and the workforce is nimble and quick to respond to customers’ demands. The employees are also expected to continuously improve the company’s production process. Kaihara adopted a long-term view of its operations instead of focusing on short-term financial results. The organisation also expanded its production overseas to supply its international markets, and to maintain production capacity.

1. **What were the reasons for establishing the Thai subsidiary?**

The Thai subsidiary was set up to supply the global market and to maintain prospective production capacity, with the understanding that in the long term, Kaihara’s current location in rural Japan means sourcing factory labour will be a challenge. The decreasing and ageing population in rural Japan are significant factors to consider. In addition, Thailand is a good place for targeting emerging Asian markets that demand higher quality denim jeans. Kaihara imposed quality standards in setting up its Thai subsidiary, installing the most advanced machines and training Thai factory workers to meet Japanese standards of manufacturing and denim jean quality.**Kaihara was successful in advancing into the global denim market even though it was a comparatively small company. Why was it so successful?**

First, Levi recognised the quality of Kaihara’s denim when Levi was sourcing new suppliers. Kaihara had a good customer, a world-class jeans company, Levi Strauss, from which it learned how to meet the highest standard for the best denim. Kaihara was a good and quick learner and continuously bettered its products and production facilities focusing on developing a niche market of high-end denim. Levi’s production quality specifications to Kaihara supported Kaihara to develop and meet world standards for quality and new methods of quality control. In the process, Kaihara collected data during each production step, leading to a data-driven scientific method of quality control.

1. **A company may enter a new market, but sometimes it is difficult to stay a winner. Kaihara is still in a good position in the denim market. How does it sustain its competency?**

It has a vertically integrated production system with data-based control that enables proposal-based sales. It has been improved and is improving this core knowledge to be a good partner of the customers. Kaihara maintains its competency by adopting a long-term thinking approach in people and manufacturing facilities: multi-skilling of employees, willingness to learn from customers, using data science to evaluate methods of production quality, siting factory in an emerging market that demands high quality denim.

**Teaching tip**: Kaihara’s partnership with Uniqlo and manufacturing process is discussed here. Visit: [www.uniqlo.com/us/en/news/topics/2017011802/](http://www.uniqlo.com/us/en/news/topics/2017011802/)

**Teaching Tip**: Kaihara’s history is presented here. Visit: www.kaihara-denim.com/en/story/

# VIII. Closing Case Analysis: Global innovation through the mobility of ideas and talent

*Summary*

The closing case uses the technology start-up company Zinemath cPlc to discuss global innovation through the international movement of ideas and people. In today’s global innovation system, international education, collaboration, recruitment of talents and entrepreneurship lead the sharing of ideas to create new technologies and products. Under the leadership of Dr Ferenc Birloni, the chief technology officer of Zinemath cPlc, the company successfully diversified its product offering, and collaborated with both domestic and overseas partners. The case also discusses the importance of developing global social networks through international exhibitions and trade shows.

*Suggested discussion questions*

1. Dr Ferenc Birloni, CTO of Zinemath, successfully drove the company’s diversification and technology development efforts. It is now time to generate revenue. How would you recommend expanding into the global market to the new management of Zinemath? How would you suggest they identify and realise the potential revenue streams globally?

* Conduct a systematic analysis of potential use cases
* Identify preferred global locations to enter
* Seek collaboration opportunities with partners who can utilise the technology. With the emergence of AR use in Asia, entertainment giants like Sony and Pixar may be very keen on collaboration.

2. The owner and chairman of the largest investor in Zinemath have a portfolio of online content provider businesses. How would you recommend linking the newly developed medical product line, zMed, with their strategic investment portfolio in online content provision, globally? What opportunities do you think the Asia-Pacific region holds for them?

* Video conferencing and telephony augmentation
* Low cost cinematography and television solutions for large movie industries, e.g. India and Thailand
* Remote medical services—virtual doctor–patient interaction

3. Zinemath has grown substantially since its foundation in 2012, and with EU funding might have a shot at conquering global markets. How would you recommend the founders seek further investment to build their capabilities using their global networks?

* Technology focused private investors, such as venture capital sources from for example China
* Stock exchange introductions in Shanghai, Singapore, Sydney or Tokyo
* Further government support for technology development in the APAC region, in exchange for relocating the company for example.

4. How would you recommend the new CTO goes about technology development, with the opportunities opening up in the Asia-Pacific region, in terms of talent, markets and collaboration opportunities?

* Presence at Asian trade shows
* Trade missions and visits in Asia-Pacific countries
* Targeted networking through business associations and government agencies interested in investment and trade promotion

**Teaching Tip**: To find out more about Zinemath, visit: http://zinemath.com/