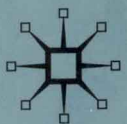


# Janet Morrison

# The International Business Environment

Global and Local Marketplaces  
in a Changing World

Second edition



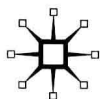
# **The International Business Environment**

**Global and Local Marketplaces in  
a Changing World**

**Second Edition**

**Janet Morrison**

**palgrave**  
macmillan



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First published 2002

Second edition published 2006 by

PALGRAVE MACMILLAN

Houndmills, Basingstoke, Hampshire RG21 6XS and

175 Fifth Avenue, New York, N.Y. 10010

Companies and representatives throughout the world

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ISBN-13: 978-1-4039-3691-2

ISBN-10: 1-4039-3691-9

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources.

A catalogue record for this book is available from the British Library.

A catalog record for this book is available from the Library of Congress.

10 9 8 7 6 5 4 3 2 1

15 14 13 12 11 10 09 08 07 06

Printed and bound in China



# Preface to the second edition

This second edition aspires to meet the same needs of readers as the first edition and improve on that effort in ways readers will find helpful and informative. The aim remains to provide an introductory text for business and management students on a range of undergraduate and postgraduate courses. The most obvious changes from the first edition are that the book has grown in size and is now organized into four major parts. In addition to the short case studies in each chapter, there are now longer case studies at the end of each part, which bring together the themes of the relevant chapters and invite critical analysis. The former Chapter 12, on global changes and challenges, has now expanded into two chapters, which form Part 4, in recognition of the growing importance of environmental and ethical issues.

As in the first edition, I have attempted to clarify basic concepts for readers with little or no background in business studies. To this end, an additional chapter, Chapter 2, on functional dimensions, has been included, bearing in mind the needs of readers who are unfamiliar with these specialist areas. I have also been aware of the need to offer space for critical reflection on the many broad issues that arise. Hence, an additional feature of this edition is the inclusion of 'Critical perspectives', which invite thought and discussion. All other features have been retained and updated. As well as updating data, I have tried to highlight changes and trends which, while not readily measurable in quantitative terms, are, nonetheless, reshaping the ways in which we perceive the world. As with the first edition, I have endeavoured to present the material clearly, offering balanced comment and interesting case examples with which the reader can engage.

The book's perspective remains thoroughly international, in both approach and case study examples. Students and teachers who have let me know their thoughts on the first edition have expressed appreciation of this approach. I am grateful for their comments and I hope this new edition meets with their approval.

I owe thanks to the reviewers of both the first edition and the draft of the second, who provided much insight through their comments, which I have aimed to take into account.

JANET MORRISON

# Acknowledgements

I would like to thank Ian Morrison and Ursula Gavin. Without their help and encouragement, this book would not have been written.

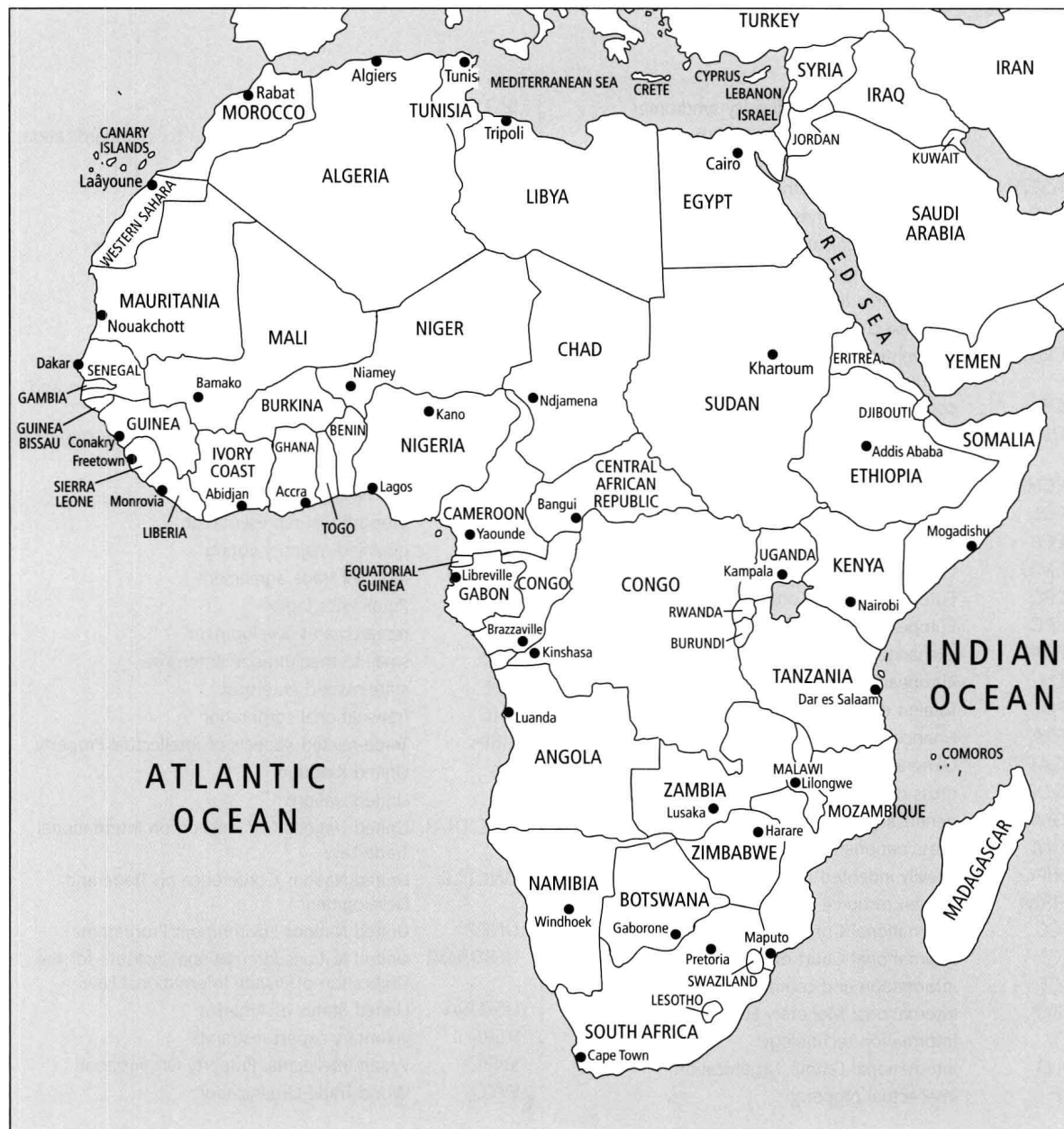
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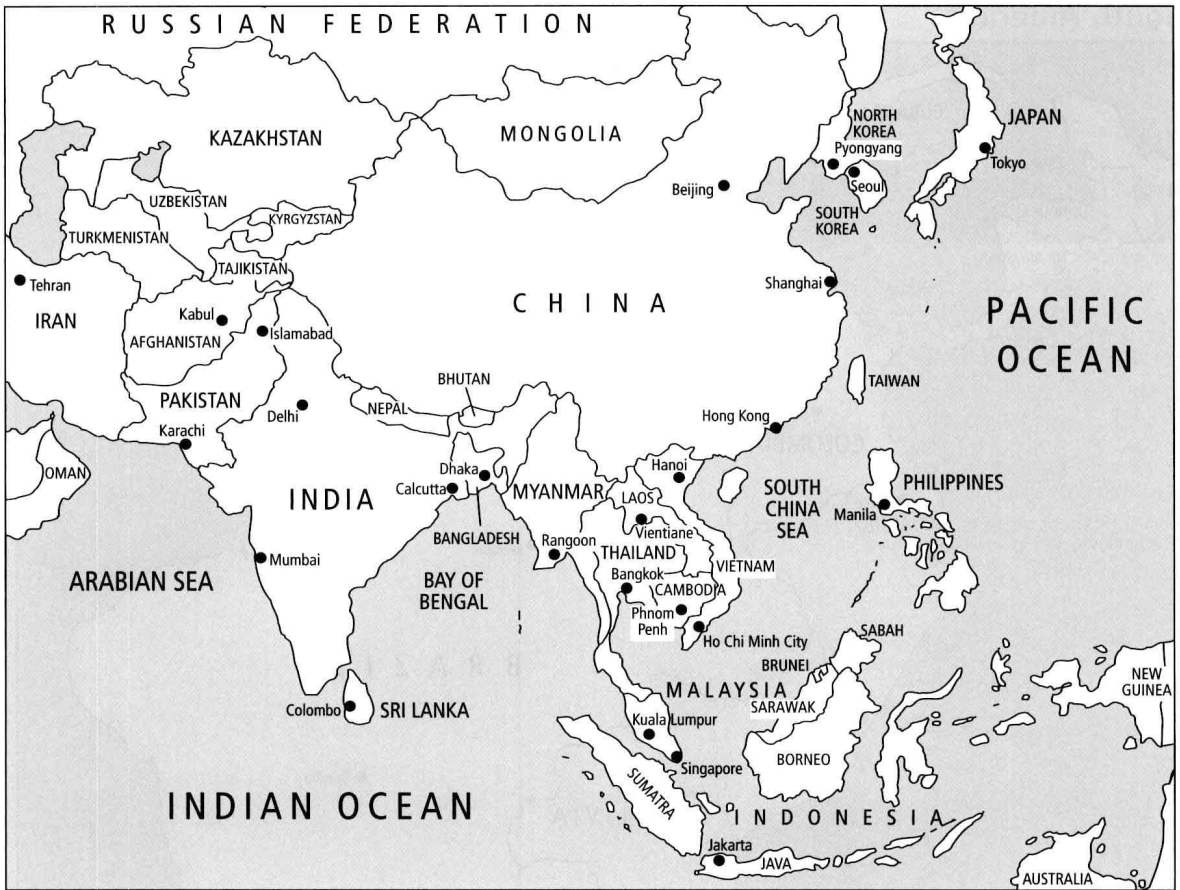
# List of acronyms

<b>AIDS/HIV</b>	acquired immunodeficiency syndrome/ human immunodeficiency virus	<b>IPO</b>	initial public offering
<b>APEC</b>	Asia-Pacific Economic Cooperation Group	<b>ISO</b>	International Organization for Standardization
<b>ASEAN</b>	Association of Southeast Asian Nations	<b>LBO</b>	leveraged buy-out
<b>B2B</b>	business-to-business	<b>LDCs</b>	least developed countries
<b>B2C</b>	business-to-consumer	<b>M&amp;A</b>	merger and acquisition
<b>BSE</b>	bovine spongiform encephalopathy	<b>MEA</b>	multilateral environmental agreement
<b>CAD</b>	computer-aided design	<b>NAFTA</b>	North American Free Trade Agreement
<b>CEO</b>	chief executive officer	<b>NATO</b>	North Atlantic Treaty Organization
<b>CISG</b>	Convention on Contracts for the International Sale of Goods	<b>NIEs</b>	newly industrialized economies
<b>CPI</b>	consumer price index	<b>NGO</b>	non-governmental organization
<b>DEFRA</b>	Department for Environment, Food and Rural Affairs (UK)	<b>OECD</b>	Organization for Economic Co-operation and Development
<b>ECHR</b>	European Convention on Human Rights	<b>OPEC</b>	Organization of Petroleum Exporting Countries
<b>ECJ</b>	European Court of Justice	<b>PCT</b>	Patent Co-operation Treaty
<b>ECB</b>	European Central Bank	<b>PPP</b>	purchasing power parity
<b>EMU</b>	European Monetary Union	<b>PR</b>	proportional representation
<b>EPC</b>	European Patent Convention	<b>QMV</b>	qualified majority voting
<b>EPO</b>	European Patent Office	<b>RTA</b>	regional trade agreement
<b>ERM</b>	exchange rate mechanism	<b>RPI</b>	Retail Price Index
<b>EU</b>	European Union	<b>R&amp;D</b>	research and development
<b>FDI</b>	foreign direct investment	<b>SME</b>	small to medium-size enterprise
<b>FSA</b>	Financial Services Authority (UK)	<b>SOE</b>	state-owned enterprise
<b>GATT</b>	General Agreement on Tariffs and Trade	<b>TNC</b>	transnational corporation
<b>GDP</b>	gross domestic product	<b>TRIPs</b>	Trade-related Aspects of Intellectual Property
<b>GM</b>	genetically modified	<b>UK</b>	United Kingdom
<b>GNI</b>	gross national income	<b>UN</b>	United Nations
<b>HIPCs</b>	heavily indebted poor countries	<b>UNCITRAL</b>	United Nations Commission on International Trade Law
<b>HRM</b>	human resource management	<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>ICC</b>	International Criminal Court	<b>UNEP</b>	United Nations Environment Programme
<b>ICJ</b>	International Court of Justice	<b>UNIDROIT</b>	United Nations International Institute for the Unification of Private International Law
<b>ICT</b>	information and communication technology	<b>US/USA</b>	United States of America
<b>IMF</b>	International Monetary Fund	<b>VERs</b>	voluntary export restraints
<b>IT</b>	information technology	<b>WIPO</b>	World Intellectual Property Organization
<b>ILO</b>	International Labour Organization	<b>WTO</b>	World Trade Organization
<b>IP</b>	intellectual property		

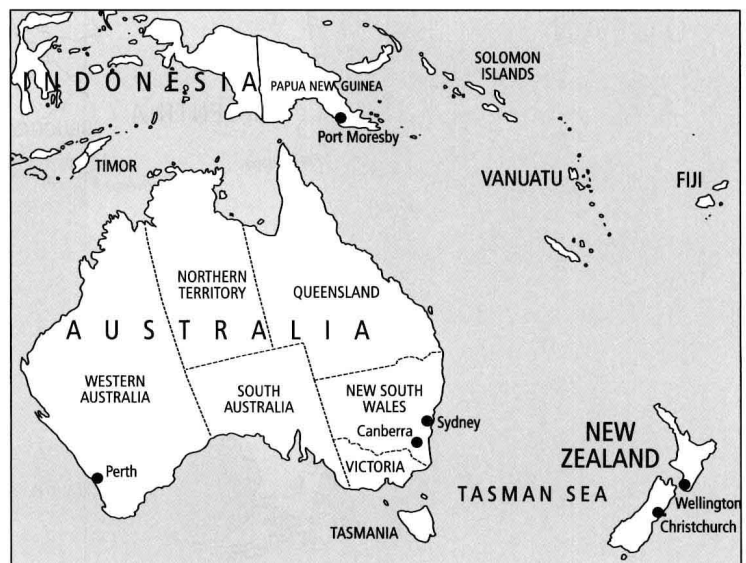
# Maps

## Africa and the Middle East





Asia



Australasia

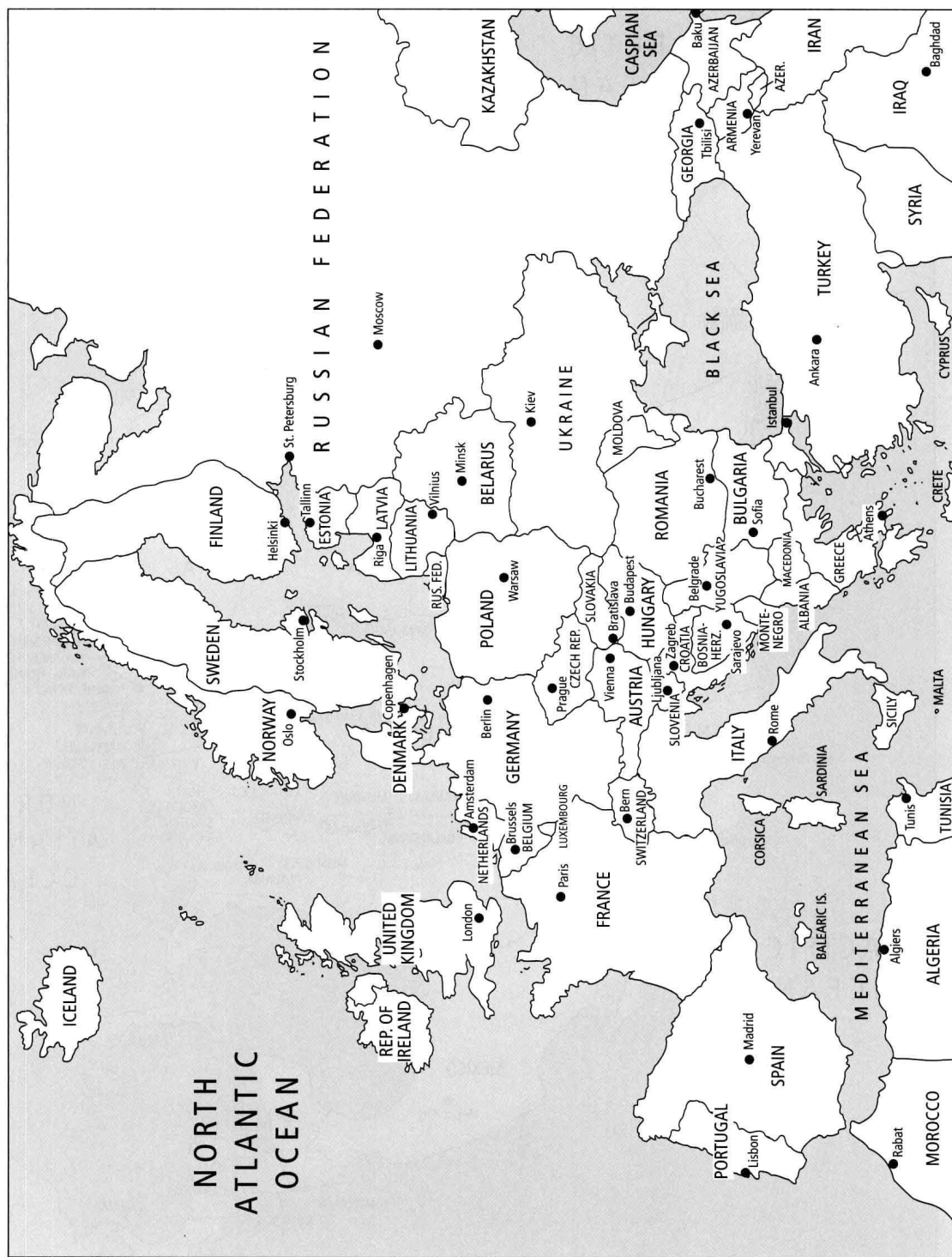


## South America



North America





# Introduction

While the study of business activities from an academic point of view goes back many years, the notion of business studies as a coherent set of disciplines comprising whole degree courses is relatively new, having blossomed only in the past three decades. In that relatively short time, however, our views of how to approach business studies, both in the structured academic setting and the world of business generally, have changed dramatically, in two major ways. First, it used to be customary to look on the business organization itself as taking centre stage and see the environment as being of less importance, simply 'background', and not directly relevant to the operations of business. This attitude has now given way to an approach which encompasses the business in its environment seen as an entirety, recognizing that there are no strict boundaries between the organization and its environment. The relationship is one of dynamic interaction: as social influences, for example, shape business activities, so businesses bring about changes in the society in which they operate. Indeed, our notion of the environment itself has broadened to encompass international forces. Secondly, the main focus of business studies has traditionally been national business life, bringing in the international dimension only as an 'added-on' dimension. This view, too, is no longer tenable. As business has become increasingly globalized, the distinction between home country and international environment has become blurred. The international dimension has moved from the periphery to the centre. For business managers, as for students of business, a recognition of the new centrality of the international sphere presents a more complex and challenging environmental perspective, opening up broader horizons and presenting far greater opportunities in the wider global economy.

In this, the second edition of this book, the international perspective remains the focus. While, again, readers will find that many core concepts and principles are explained in the context of the UK environment, equal attention is given to other geographic regions and the interrelationships between regions and national economies. The major developed economies, including the US and Japan, as well as the transition economies of Central and Eastern Europe and Asia are covered. The growing importance of China has warranted extensive discussion. The deepening integration of other developing countries in the world economy, with their divergent perspectives on international business, is also covered.

Much is now made of the opportunities – and risks – presented by the new



economy, the high-tech world of global companies whose lifeblood is the internet, and who inhabit the borderless 'invisible continent'. But all companies, even virtual ones, still depend on business structures, employees and customers in the context of national environments, each with its own particular social and institutional makeup. This book takes a genuinely multidisciplinary approach, giving weight to all aspects of the business environment. These include: economic structures, social relations, cultural values, political institutions, technological development, and the global financial and competitive environments. The aim is to look at each sphere from the business point of view and to highlight the interactions between spheres in the international arena. Clearly, formal international links are an important consideration, but so too are the growing informal relations between businesses, greatly enhanced by the growing use of the internet.

Given such a broad expanse of subject matter, this book can aspire only to give an introduction to each subject area. That said, the underlying premise is that an introduction to the basic concepts, principles and frameworks that shape each subject area will be of primary help to the reader in gaining an understanding of the processes at work. Business examples and applications are integrated into the text, providing a balance between theory and practice. The reader will then be able to build on this foundation as specialist knowledge of other disciplines is assimilated. The book focuses on key themes which provide an underpinning for the varied content of each chapter, enabling the reader to develop an overview of the forces driving the global economy.

## Themes and plan of the book

A departure from the first edition is the division of the book into four parts, with integrative case studies at the close of each part. It is hoped that grouping chapters under broad headings will make the subject matter more manageable. In addition, the separate parts should afford a sharper focus on the major themes. These themes, which form integrative links between the different aspects of the environment, are:

- *Globalization*, or the deepening global integration between businesses, governments and societies. The business environment has undergone rapid change in the past two decades, largely thanks to the advances of computing and information technology. These changes have impacted not just in the technological environment, but across the environmental spectrum, most particularly in the financial and competitive environments.
- *Diversity* among national societies, groups, regions and organizations, which interact with the forces of globalization. The tensions between global forces and local diversity impact on virtually every business, whether its managers are fully aware of the wider picture or not! Understanding the underlying currents helps considerably in determining appropriate business responses.

The following is a brief summary of the four parts of the book, indicating how the chapters contribute to each part's overall themes.

**Part 1: The  
business  
in its  
environment**

This part comprises four chapters. Chapter 1 provides an introduction to the business organization, outlining key concepts and organizational structures. The chapter stresses the interactions between internal and external environments in an introduction to business strategy, which includes PEST and SWOT analyses. Chapter 2 analyses the separate functions which characterize any business, linking them to organizational and strategic considerations. Chapters 3 and 4 consider the national economic environment, focusing on the interactions between the organization and the immediate local and national environment, which is likely to have the most profound influence on the firm in its formative stages. Divergent pathways of economic development across the globe are considered in Chapter 4, highlighting economic liberalization and opening markets as a broad trend in the global economy. The closing case study, Coca-Cola, brings together the themes developed in the four chapters, contrasting the company's global brand strategies with diverging consumer markets.

**Part 2:  
Dimensions  
of the  
international  
environment**

This part comprises five chapters. Chapter 5 introduces the major theme of globalization and its impacts. It stresses that globalization is not one but many processes, which proceed in different ways and at different speeds in different regions of the world. This theme is explored in the other chapters in this part. Chapter 6 looks at the cultural environment, examining the role of values and norms of behaviour as they inform both organizations and societies. Similarly, Chapter 7, on the social environment, looks at ways in which divergent societies and cultural groups have changed through the forces of industrialization, urbanization and economic development. Long familiar to those in advanced economies, these processes are now bringing about radical changes in many developing and transitional economies. Similarly, the political environment, the subject of Chapter 8, is undergoing radical changes in many countries and having a profound impact on international business. Chapter 9 examines the legal environment. It builds on the institutional and social aspects of national environments discussed in the previous three chapters, and explores the growth of international legal frameworks as they impact on international businesses. These themes are brought together in the closing case study on Fiat.

**Part 3:  
Global forces**

There are three chapters in this part. Chapter 10 presents an overall view of the global competitive environment, including world trade. Theories of international trade and competitive advantage are examined in relation to corporate strategies. As well as world trading patterns, the impact of regionalism on trade and the competitive environment is assessed. The subject of Chapter 11 is technology and innovation, one of the acknowledged leading sources of competitive advantage. Innovation and technological capacities are explored at both the national and international level, highlighting trends towards the integration of R&D into international networks. Perhaps one of the chief international dimensions in which globalization is reshaping competitive capacities is the financial environment, which is the subject of Chapter 12. The international institutional framework is explained, along with analytical concepts for understanding global capital flows as they affect transnational business operations across the globe. From the firm's perspective, the strategic area of mergers and acquisitions is explored in the international context. The closing case

study, on General Electric (GE), brings together these themes, illustrating GE's changing strategies and structures in the global competitive environment.

#### Part 4: Issues and challenges

The last part consists of two chapters which focus on the challenges facing businesses in the global ecological environment and the societies in which they operate. Chapter 13 is devoted to the natural environment. As processes such as industrialization and the extraction of natural resources have taken their toll on the environment, businesses now recognize their responsibilities for examining their operations in order to reduce environmental degradation. Research on the damaging effects of climate change has lent impetus to governmental and international attempts to reduce emissions; businesses globally are playing crucial roles in these initiatives. A strategic focus on environmental impact is part of an overall approach to social responsibility, which is the subject of Chapter 14. Here, discussion turns to the ways in which businesses are increasingly called on to address the broader social issues beyond their traditional economic role. Social issues have become particularly acute in the developing world, where governments, international organizations and businesses are all engaged. The broader role of the responsible business is highlighted in theories of corporate social responsibility (CSR) and stakeholder management. These themes are integrated in the case study which closes the last part of the book, on the global pharmaceutical company, GlaxoSmithKline.

Each of the four parts is preceded by an introduction, which gives a more detailed account of the chapters.

## Features

The book is designed to present the content in an easily accessible manner, with a number of aids for the reader. A new feature of this edition is the **Critical perspectives** box, described below. While ideally one would begin with Chapter 1 and read each successive chapter in order, the book has been designed so that any chapter can be read alone, and the reader will be aided by suitable references to earlier relevant chapters given in brackets. The content of each chapter is divided into sections and subsections, which are outlined at the start of the chapter, and also appear in the Contents. Each chapter also outlines **Learning objectives** at the beginning, to clarify the particular outcomes which the reader can expect from the chapter. **Conclusions** at the end of each chapter provide a concise list of important points by way of summary.

The list that follows outlines other aids that have been included:

- Key concepts, key terms, principles and organizations appear in **bold letters** when used for the first time. They are defined in a **Glossary** at the end.
- References are given in brackets in the text, for example (Smith, 1991). The **References** section at the end of the book is a list of all references in the main text. References within case studies are given at the end of each case study. For newspaper reports, the name of the paper and publication date are given in brackets in the text, as in (*Financial Times*, 6 November 1999).

- **Summary points** boxes appear throughout each chapter. These are not a substitute for reading the section! They should help to consolidate the main points.
- Boxes labelled **Minifile** contain extended examples of particular points, to complement the main text.
- Several short **Case studies** are given in every chapter. These appear in boxes at appropriate points in the text. Each case study consists of a business application of an issue which arises in the international environment. They feature all types of businesses and all areas of the globe. Each case study has case questions at the end, which can be a basis of group discussion or a short assignment.
- **Web alert** boxes appear throughout the text. These refer the reader to websites for additional information, which in turn often contain links to related sites. Every effort has been made to ensure that these addresses are accurate, but websites are constantly changing and do sometimes move house. The Web alert boxes will provide a starting point for further exploration of the topics. They offer a variety of sources, including public information services, governmental offices, non-governmental organizations and companies themselves. A word of caution is, however, in order. Every organization has its own perspective and values, which its website is designed to present to a wider public. While providing helpful information, its interpretation of that information is likely to reflect its own perspective, and may well downplay or leave out aspects of the organization which are less than flattering. A balanced picture is probably best obtained by checking out a number of sources. An unfortunate trend for the student is that many databases provided by public authorities and research bodies, which, while available on the web, are available only on payment of a subscription (sometimes considerable). These bodies do usually provide summary information freely, and universities may pay subscriptions on behalf of their students, to acquire access to an entire database. (The data in this text derives entirely from freely available sources, at the time of access.)
- Suggestions for **Further reading** are given at the end of each chapter. These include a variety of sources. Some are specialized textbooks on the subject for more in-depth study. Others are expositions by well-known authorities in the field, whose works are seen as 'landmark' books or articles. Others are compendiums of articles by a number of scholars, whose journal articles are often difficult to track down in isolation.

Other learning aids are listed below:

- Besides the questions at the end of each case study, a number of **Review questions** are given at the end of each chapter. These are either for self-study or discussion, to check that you have grasped the main points and issues in the chapter.
- Two **Assignments** are given after each set of review questions. These are broader in scope than the review questions. They require some independent research and considered critical analysis of the issues.
- A new feature in this second edition is the inclusion of **Critical perspectives** boxes on relevant topics as they arise. An excerpt is quoted from a leading authority, followed by questions for thought and discussion. Some of these authors present



strong views with which you may well disagree. These passages are intended to be thought-provoking, inviting you to look at different lines of reasoning and form your own assessments of their validity.

- The book contains a number of **maps** for reference. Developing an understanding of the geographical location of nations and regions may seem incidental, but is immensely useful in understanding the substantive issues discussed in the text.

The study of the international business environment has never been more interesting or more challenging. While no one can purport to have all the answers, it is hoped that this book at least points readers on a sound path to understanding the ever-changing world of international business. The advice of Confucius, some 2400 years ago, is still appropriate:

Extend your learning and hold fast to your purpose; question closely and meditate on things at hand: there you will find the fullness of your humanity.

Confucius, *The Analects*  
(trans. Simon Leys)