Dedication

Don dedicates this edition to his wife, Vicki; children, Don, Jr., Lianne, and Dulce; their spouses, Susan and Jim; and his grandchildren, Alison, Sean, and Alexandra. Wendell would like to dedicate this edition to his wife, Sally, and his children, Malinda and Kevin. Paul would like to dedicate this book to Charlotte and Kirke Frantz, his parents. Mike dedicates this edition to his parents, Ray and JoAnn, and to his wife, Colette Frayne. Michael's thanks go to Karen and Amy, who suffered the most through the long hours at the office, and to his mother, Mary Ruth. He thanks Melinda Zuniga and Elia Ovalle, both of whom put up with his "working on the book" rather than attending to other responsibilities.

[Chapter]

The Rapid Change of Global Business

"There is no longer any such thing as a purely national economy. The rest of the world is just too big to ignore, either as a market or as a competitor. If business schools do nothing other than to train their students to think internationally, they would have accomplished an important task."

—John Young, CEO, Hewlett-Packard

Concept Previews

After reading this chapter, you should be able to:

- **appreciate** the dramatic internationalization of markets
- **understand** the various names given to firms that have substantial operations in more than one country
- **appreciate** the profound effect of the Internet on many international business firms
- **understand** the five kinds of drivers, all based on change, that are leading international firms to the globalization of their operations
- **comprehend** why international business differs from domestic business
- **describe** the three environments—domestic, foreign, and international—in which an international company operates

Howard Grey/Tony Stone Images

Why You Need International Business Experience and How to Get It

Gary Ellis, a young assistant controller for Medtronic, a Fortune 500 manufacturer of pacemakers and other medical equipment, was thought to be on the fast track for a top management position. However, company executives felt he first needed broader experience, so they sent him to head their European headquarters in Belgium. In his new job Gary was responsible for many top-level duties and worked with an array of officials (labor, government, production, and marketing, as well as financial).

Two years later, when the corporate controller's job in the company's home office in Minneapolis became vacant, Ellis was given the job. Bill George, Medtronic's CEO, summed up the company philosophy regarding necessary experience: "Successful executives of the future will have all lived in another country for several years."[a]

Medtronic is not the only firm with this policy. At FMC Corp., a heavy machinery and chemicals producer, the vice president for human resources says that his company believes that "no one will be in a general management job by the end of the decade who didn't have international exposure and experience."[b] Evidently, the boards of directors of the Big Three automakers have the same policy. All three CEOs were at one time heads of their firms' international operations.

The realization that overseas experience is important for career advancement has heightened the competition for foreign assignments. For example, nearly 500 midlevel engineering and technical managers in GE's aircraft engine unit applied for the 14 positions in the company's global marketing training program.[c] The global human resources manager at another GE unit, GE Medical Systems, claims, "We have far more candidates than we have jobs offshore."[d] In the face of such competition, what can you do to improve your chances to obtain an overseas post?

First, make your boss and the Human Resource Management department personnel aware of your interest and the fact that you have studied international business. Look for opportunities to remind them that you continue to be interested (performance review is a good time). Try to meet people in the home office who work with the foreign subsidiaries as well as visitors from overseas. As evidence of your strong interest in foreign employment, take additional international business courses and study foreign languages. Make sure that people in your company know what you are doing.

You have seen that many American managements want their top executives at company headquarters to have years of foreign experience, but do CEOs of the major firms recognize the value of internationalized business education for all employees in management? Do they, in fact, believe it is important that all business graduates they hire have some education in the international aspects of business? How important is the knowledge of foreign languages?

To find out, we surveyed the CEOs of *Forbes*'s "100 Largest Multinational Firms" and *Fortune*'s "America's 50 Biggest Exporters." We found that: (1) Seventy-nine percent believed that all business majors should take an introduction to international business course. (2) About 70 percent felt that business graduates' expertise in foreign languages, international aspects of functional areas (e.g., marketing, finance), and business, human, or political relations outside the United States is an important consideration in making hiring decisions. (3) A majority of the respondents believed that a number of courses in the international business curriculum (e.g., international marketing, international finance, export–import, international management) are relevant to their companies.

It appears from our study, then, that the CEOs of the major American firms doing business overseas are convinced that the business graduates they hire should have some education in the international aspects of business. Most seem to agree with the executive vice president of Texas Instruments, who said, "Managers must become familiar with other markets, cultures, and customs. That is because we operate under the notion that it is 'one world, one market,' and we must be able to compete with—and sell to—the best companies around the world."[e]

Table 1.1 Import Penetration, 1970 versus 1999 ($ billions)

	Import Penetration (%)		Goods and Services				GDP*	
			Exports		Imports			
	1999	1970	1999	1970	1999	1970	1999	1970
United Kingdom	24.8%	23.4%	$268	$25	$321	$25	$1,241	$107
Germany	18.7	19.3	541	39	473	35	2,604	185
France†	17.3	15.5	299	16	286	22	1,665	143
United States	11.8	6.7	695	68	1,060	68	8,637	1,012
Japan	5.9	9.8	419	22	311	20	5,393	204

Notes: *At 1999 prices and exchange rates.
†Figures include overseas territories.

Sources: "Gross Domestic Product," *Main Economic Indicators*, March 2000, OECD Web site, www.oecd.org/std/gdp.htm (July 24, 2000); "Appendix Table 1," *Annual Report 2000*, www.wto.org/wto/english/res_e/anre00_e.pdf (July 24, 2000).

Clearly, the top executives from some of the largest corporations in the world are saying that they prefer business graduates who know something about markets, customs, and cultures in other countries. Companies that do business overseas have always needed some people who could work and live successfully outside their own countries, but now it seems that managers wanting to advance in their firms must have some foreign experience.

Did you note the reason for this emphasis on foreign experience for managers—increased involvement of the firm in international business? The top executives of many corporations want their employees to have a global business perspective. What about companies that have no foreign operations of any kind? Do their managers need this global perspective? They do indeed, because it will help them not only to be alert for both sales and sourcing opportunities in foreign markets but also to be watchful for new foreign competitors preparing to invade their domestic market.

Indicators of this expanding competition are the increases in import penetration defined as

$$\frac{\text{imports}}{\text{GDP} - \text{exports} + \text{imports}}$$

and the buildup of foreign investment. Note that import penetration has increased markedly for the five major importing nations over the past 29 years (Table 1.1).

In summary, we can say that every company's management, whether or not it has any direct foreign involvement, needs to be aware of what is occurring globally in its markets and its industry. ■

Sources: [a]"The Real Fast Track Is Overseas," *Fortune*, August 21, 1995, p. 129. [b]"Path to Top Job Now Twists and Turns," *The Wall Street Journal*, March 15, 1993, p. B1. [c]"Younger Managers Learn Global Skills," *The Wall Street Journal*, March 3, 1994, p. B1. [d]"The Fast Track Leads Overseas," *Business Week*, November 1993, pp. 64–68. [e]Donald A. Ball and Wendell H. McCulloch, Jr., "The Views of American Multinational CEOs on Internationalized Business Education for Perspective Employees," *Journal of International Business Studies*, 2nd Quarter, 1993, pp. 383–91.

What about you? Are you involved in the global economy yet? Think back to how you began your day. After you awoke, you may have looked at your Timex watch for

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the time and turned on your RCA TV for the news and weather while you showered. After drying your hair with a Conair dryer, you quickly swallowed some Carnation Instant Breakfast and Sanka coffee, brushed your teeth with Close-Up toothpaste, and drove off to class in your Honda with its Firestone tires and a tank full of Shell gasoline.

Meanwhile, on the other side of the world, a group of Japanese students dressed in Lacoste shirts, Levi's jeans, and New Balance shoes may be turning off their IBMs in the computer lab and debating whether they should stop for hamburgers and Cokes at McDonald's or coffee and doughnuts at Mister Donut. They get into their Ford Mustangs with Goodyear tires and drive off.

What do you and the Japanese students have in common? You are all consuming products made by *foreign-owned companies.* This is international business.

To further see the point we're making, answer this question: Which of the following companies or brands are foreign owned? Who are the owners?

1. Norelco (electric razors)
2. Chesebrough-Pond (Vaseline)
3. Ben & Jerry's Ice Cream
4. Lever Brothers (Lux, Dove)
5. Lenscrafters (eyeglasses)
6. Maybelline (cosmetics)
7. Comp USA (computer stores)
8. Greyhound Lines
9. Holiday Inn
10. Godiva Chocolate
11. Scott Paper (Kleenex)
12. Elizabeth Arden
13. General Tire (tires)
14. A&W Brands (root beer)
15. Motel 6
16. Pillsbury[1]

All that you have read so far points to one salient fact: *All businesspeople need to have a basic knowledge of international business to be able to meet the challenge of global competition.*

International Business Terminology

Part of this knowledge consists of learning its special terminology, an important function, as you already know, of every introductory course. To assist you in learning the international business "language," we've included a glossary at the end of the book and listed the most important terms at the end of each chapter. They also appear in bold print where they are first used in the text, with their definitions in the margin.

Multinational, Global, International, and Transnational Companies

Because international business is a relatively new discipline and is extremely dynamic, you will find that the definitions of a number of terms vary among users. For example, some people use the words *world* and *global* interchangeably with *multinational* to describe a business with widespread international operations, but others define a global firm as one that attempts to standardize operations in all functional areas but that responds to national market differences when necessary.[2]

According to this definition, a global firm's management

1. Searches the world for (*a*) market opportunities, (*b*) threats from competitors, (*c*) sources of products, raw materials, and financing, and (*d*) personnel. In other words, it has global vision.
2. Seeks to maintain a presence in key markets.
3. Looks for similarities, not differences, among markets.

Those who use *global* in this manner are defining a multinational company as a kind of holding company with a number of overseas operations, each of which is left to adapt its products and marketing strategy to what local managers perceive to be unique aspects of their individual markets. Some academic writers suggest using terms such as *multidomestic* and *multilocal* as synonyms for this definition of *multinational.*[3] You will also find those who consider *multinational corporation* to be synonymous with *multinational enterprise* and *transnational corporation.*

However, the United Nations and the governments of most developing nations have been using *transnational* instead of *multinational* for decades to describe a firm doing business in more than one country. The United Nations specialized agency, the United Nations Conference on Trade and Development (UNCTAD), for example, employs the following definition: "Transnational corporations comprise parent enterprises and their foreign affiliates: a parent enterprise is defined as one that controls assets of another entity or entities in a country or countries other than its home country, usually by owning a capital stake. An equity capital stake of at least 10 percent is normally considered as a threshold for the control of assets in this context."[4] More recently, some academic writers have employed the term for a company that combines the characteristics of global and multinational firms: (1) trying to achieve economies of scale through global integration of its functional areas while at the same time (2) being highly responsive to different local environments (a newer name is *multicultural multinational*).[5] You recognize, of course, that this is similar to the definition of a global company mentioned earlier. To be able to use this definition for *transnational,* these writers have simply redefined a global firm as one that responds weakly to local environments.

Businesspeople, though, usually define a transnational as a company formed by a merger of two firms of approximately the same size that are from two different countries. Four of the largest are Unilever (Dutch–English, food), Shell (Dutch–English, oil), Pharmacia & Upjohn (Swedish–American, pharmaceuticals), and ABB (electrotechnical, power generating), a 1988 merger between ASEA (Swedish) and Brown-Bovari (Swiss). Other European transnationals, now dissolved, were Dunlop-Pirelli (English–Italian, tires), Semperit-Kleber Colombes (Austrian–French, tires), and VFW-Fokker (Germany–Netherlands, aircraft). *Binational* is another name given to this kind of company.

Organization of a Transnational

Generally, there is a 50–50 ownership of a new company formed by the merger, as in the case of ABB, although there are notable exceptions. The Unilever Group was established in 1930 when Margarine Unie (Dutch) and Lever Brothers (British) decided to merge their interests while remaining separate legal entities. Now known as Unilever N.V. (Dutch) and Unilever PLC (British), they are the parent companies of one of the world's largest consumer goods businesses (31 in the Fortune Global 500 with 1999 sales of $44 billion), with corporate centers in Rotterdam and London. These companies, which serve as holding and service companies for their group companies around the world, have the same directors, and each company chairman is vice chairman in the other company. In most cases, shares in the group companies are held by either N.V. or PLC. Interestingly, Unilever describes itself as "international, not global, because it does not attempt to enter all markets with the same product."[6]

[Worldview]

Global Company—by Whose Definition?

After talking about having to be a multinational firm (a collection of national businesses) to gain a competitive advantage during the 1960s, management consultants and managements in the 1980s turned to the buzzword *globalization* as a strategy to beat their competitors. Unfortunately, *globalization* and its root, *global,* are overused and misused in international business because of the prestige that managements believe these words bring to their companies. Here are three of the various definitions of a global company—an organization that attempts to

1. Have a worldwide presence in its market.
2. Standardize operations worldwide in one or more of the firm's functional areas.
3. Integrate its operations worldwide.

There are those who believe a global firm must possess all three characteristics and have a worldwide locus of control and ownership. Critics of this definition claim there is no global firm by that definition. To see how firms define global firms to suit their purpose, compare these two situations.

Allen-Edmonds is a small shoe manufacturer in Port Washington, Wisconsin, whose sales in 17 years rose from $9.5 million in 1978 to $55 million in 1995. The president explains that the firm accomplished this by "choosing a market niche—manufacturing high-quality dress shoes for men, and by viewing the whole globe as our marketplace. Today, although we produce all our shoes in Port Washington, Allen-Edmonds is a *global manufacturing company.*" Contrast this with the way Procter & Gamble's (P&G) management describes its company: "Since 1980, the company has quadrupled the number of consumers it can serve with its brands—about five billion people around the world. P&G now has operations in more than 70 countries and its products are sold in over 140 countries, making P&G one of the biggest and most successful consumer goods companies in the world. P&G is also a major force for economic growth and well-being around the world, employing more than 103,000 people worldwide. Today, Procter & Gamble is a *truly global corporation.*"

Although the same term is used in both situations, the definitions are different. For example, some people, such as the Allen-Edmonds president, claim the

The other large Dutch–British transnational, Shell, has a similar organizational arrangement in that in 1903 a British petroleum company and a Dutch one formed a partnership, the Asian Petroleum Company, that worked so well that it was extended to worldwide operations with the formation of the Royal Dutch/Shell Group of Companies in 1907. The partnership continues. The two parent companies retain their separate businesses and own the Group, with over 1,700 companies in the proportion of 60 percent to Royal Dutch Petroleum and 40 percent to the Shell Transport and Trading Company. The Shell Group ranked eleventh in the 1999 Fortune Global 500 with sales of $105 billion. Note that neither Unilever nor Shell is a merger in the strictly legal sense.[7]

> In 1990, Brazil and Argentina signed a treaty establishing Argentina/Brazil Binational Companies, presumably because of their membership in the regional trade association Mercosur. The Colombian and Ecuadorian governments have also established regulations for the formation of binational companies.[8]

Other Possible Solutions to Multiple Definitions

Perhaps the Japanese have the solution to the use of terms with multiple definitions; they call the technique of adapting to local conditions *dochakuka,* meaning "global localization." The word comes from Japanese agriculture, where it means adjusting the planting, fertilizing, and harvesting methods to meet local soil conditions.

To complete this discussion, we need to mention that the term *supranational corporation* was described in a publication of the United Nations as one in which both the operation and the ownership are multinational, yet many reserve this term for a corporate form that does not exist now—one that would be chartered by an international agency such as the United Nations.

title *global* simply because their companies export to other countries. Presumably, he calls his firm a global manufacturing company because Allen-Edmonds does its own manufacturing instead of subcontracting from China, Indonesia, and other Asian nations as Nike and Adidas do. For other firms, such as P&G, attaining global company status requires meeting additional criteria, thereby reducing the number of companies able to reach that goal. Their definition, essentially based on marketing, production, and technological globalization, is one that focuses on customer similarities worldwide and producing in similar manufacturing facilities around the world essentially the same products, which are then sold under the same brand names in all markets.

Recently, however, the term *global company* has taken on still more new criteria. Compared to other definitions, a global company is now said to be more culturally diverse and incorporates much more worldwide standardization in its marketing, technical, and production functions than previously. To utilize its worldwide assets more efficiently against competitors, the new global company places production plants all over the world to gain the benefits of lower-cost labor and better-educated workers. Improvements in communications technology such as Electronic Data Interchange (EDI) data exchange (invoices, purchase orders) between computers of manufacturers and suppliers, international networking, and teleconferencing have made it possible for project teams around the world to meld ideas from different cultures for greater innovation.

Managements are also removing the barriers within their companies to allow the free flow of people as well as ideas. Many are offering top management positions to citizens from countries other than the home country. Some are even calling this newly defined global company by a new name: *multicultural multinational.*

The aims of the multicultural multinational are (1) to be responsive to local markets, (2) to produce and market its products worldwide, and (3) to exploit its technology on a global basis—elusive goals reached by few companies so far. Although it has become fashionable to speak of global corporations as being "stateless" or "borderless," measurement by any criterion shows that they don't exist. Each has a home government and tax authority and is owned by shareholders from primarily one nation. According to Professor Yao-Su Hu, a former World Bank economist, writing in *California Management Review,* these firms are national firms with international operations. ■

Sources: "Getting Your Foot in the Global Door," *Financial Executive,* May/June 1995, p. 23; "A Global Company, 1980–1996," www.pg.com/info/library/history/1980d.html, August 11, 1997; "The Discreet Charm of the Multicultural Multinational," *The Economist,* July 30, 1994, pp. 57–58; Yao-Su Hu, "Global or Stateless Corporations Are National Firms with International Operations," *California Management Review,* Winter 1992, pp. 107–26.

Definitions Used in This Text

In this text we will employ the definitions listed below, which are generally accepted by businesspeople. Although we primarily use the terms *global, multidomestic,* and *international* firms or companies, at times we may use *multinational enterprise (MNE)* or *multinational company (MNC)* interchangeably with *international company (IC)* inasmuch as both terms are employed in the literature and in practice.

1. *International business* is business whose activities are carried out across national borders. This definition includes not only international trade and foreign manufacturing but also the growing service industry in areas such as transportation, tourism, advertising, construction, retailing, wholesaling, and mass communications. Figure 1.1 demonstrates how widespread one service corporation has become.
2. *Foreign business* denotes the domestic operations within a foreign country. This term sometimes is used interchangeably with *international business* by some writers.
3. **Multidomestic company** (MDC) is an organization with multicountry affiliates, each of which formulates its own business strategy based on perceived market differences.
4. **Global company** (GC) is an organization that attempts to standardize and integrate operations worldwide in all functional areas.*
5. **International company** (IC) refers to both global and multidomestic companies.

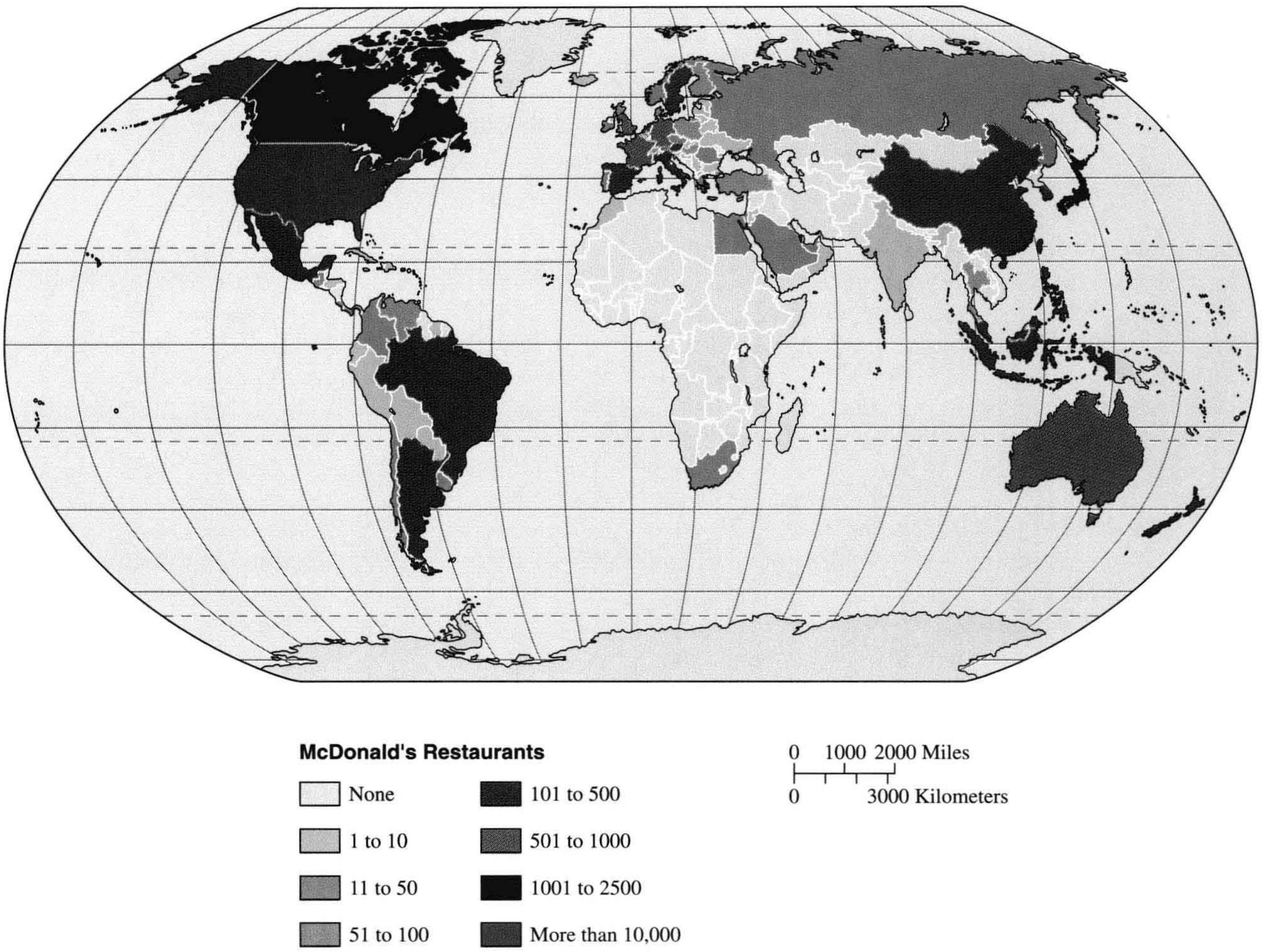
*Note that in this definition global ownership is not a requirement. However, you should be aware that some people do include this along with other criteria, such as the ratio of foreign to total employment or foreign to total assets.

multidomestic company
An organization with multi-country affiliates, each of which formulates its own business strategy based on perceived market differences.

global company
An organization that attempts to standardize and integrate operations worldwide in all functional areas.

international company
Either a global or a multidomestic company.

[Figure 1.1] **Overseas Locations of McDonald's, an International Service Company**



History of International Business

While international business as a discipline is relatively new, international business as a business practice is not, as we shall see in the next section, "History of International Business." Well before the time of Christ, Phoenician and Greek merchants were sending representatives abroad to sell their goods. In 1600, the British East India Company, a newly formed trading firm, established foreign branches throughout Asia. At about the same time, a number of Dutch companies, which had organized in 1590 to open shipping routes to the East, joined together to form the Dutch East India Company and also opened branch offices in Asia.[9] American colonial traders began operating in a similar fashion in the 1700s.

Early examples of American foreign direct investment are the English plants set up by Colt Fire Arms and Ford* (vulcanized rubber), which were established before the Civil War. Both operations failed, however, after only a few years.

A number of multinational companies existed in the late 1800s. One of the first to own foreign production facilities, have worldwide distribution networks, and market its products under global brands was Singer Sewing Machine. In 1868, it built a factory in Scotland, the first successful American venture into foreign production. By 1880, the company had become a global organization with an out-

*This Ford was no relation to Henry Ford.

standing international sales organization and several overseas manufacturing plants. Other firms, such as J&P Coats (United Kingdom) and Ford, soon followed, and by 1914, at least 37 American companies had production facilities in two or more overseas locations.[10]

Among those firms already established overseas were National Cash Register and Burroughs, with manufacturing plants in Europe; Parke-Davis, with a plant near London (1902); and Ford Motor Company, which had assembly plants or distribution outlets in 14 countries. General Motors and Chrysler followed soon afterward, so that by the 1920s all three companies had sizable foreign operations. Interestingly, and quite the reverse of today's situation, in the 1920s *all* cars sold in Japan were made in the United States by Ford and General Motors and sent to Japan in knocked-down kits to be assembled locally. Another early overseas investor was General Electric, which, by 1919, had plants in Europe, Latin America, and Asia.[11] Other well-known American firms in Europe at that time were Alcoa, American Tobacco, Armour, Coca-Cola, Eastman Kodak, Gillette, Quaker Oats, Western Electric, and Westinghouse.

Interestingly, American business moving overseas caused consternation among Europeans similar to that caused by Japanese investments in the United States today. One author wrote, "The invasion goes on unceasingly and without noise or show in 500 industries at once. From shaving soap to electric motors, and from shirtwaists to telephones, the American is clearing the field."[12]

Although American firms were by far the largest foreign investors, European companies were also moving overseas. Friedrich Bayer purchased an interest in a New York plant in 1865, two years after setting up his plant in Germany. Then, because of high import duties in his overseas markets, he proceeded to establish plants in Russia (1876), France (1882), and Belgium (1908).[13] Bayer, now one of the four largest chemical companies in the world ($29 billion in 1999 sales), has 350 companies with operations in 140 countries. After losing the right to use the name Bayer in North America as part of Germany's World War I reparations, the company regained that right in 1995 by buying the over-the-counter drug division from Kodak, which had been the manufacturer and owner of Bayer aspirin.[14]

Although multinational firms existed well before World War I, only in recent years have they become the object of much discussion and investigation, especially concerning the increasing globalization of their operations. What is globalization? What are the reasons for globalization?

Globalization

What Is It?

Although globalization is discussed everywhere—television shows, Internet chat rooms, political demonstrations, parliaments, management boardrooms, and labor union meetings—so far there is no widely accepted definition. In fact, its definition continues to broaden. Now, for example, social scientists discuss the political, social, environmental, historical, geographical, and even cultural implications of globalization.[15] Some also speak of technological globalization, political globalization, and the like.[16]

However, the most common definition and the one used in international business is that of economic globalization—the international integration of goods, technology, labor, and capital; that is, firms implement global strategies which link and coordinate their international activities on a worldwide basis.[17] Interestingly, at the 1999 World Economic Forum (WEF) annual meeting in Davos, Switzerland, a new word, *globality,* was introduced as the meeting's theme. Daniel Yergin, coauthor of *The Commanding Heights,* decided that since globalization is a process, a different word was needed for "the results of this process—a place, a condition, the situation that comes afterward." Professor Klaus Schwab, founder of the WEF, explained, "We wanted to look beyond the economic dimensions of what is happening. It is a globality." Bill Gates announced at the meeting that Microsoft would add *globality* to Microsoft's dictionary.[18]

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Globalization Forces

There are five major kinds of drivers, all based on change, that are leading international firms to the globalization of their operations: (1) political, (2) technology, (3) market, (4) cost, and (5) competitive:[19]

1. **Political.** There is a trend toward the unification and socialization of the global community. Preferential trading arrangements, such as the North American Free Trade Agreement and the European Union, that group several nations into a single market have presented firms with significant marketing opportunities. Many have moved swiftly to enter either through exporting or by producing in the area.

   Two other aspects of this trend are contributing to the globalization of business operations: (*a*) the progressive reduction of barriers to trade and foreign investment by most governments, which is hastening the opening of new markets by international firms that are both exporting to them and building production facilities in them, and (*b*) the privatization of much of the industry in formerly communist nations and the opening of their economies to global competition.

2. **Technology.** Advances in computers and communications technology are permitting an increased flow of ideas and information across borders, enabling customers to learn about foreign goods. Cable TV systems in Europe and Asia, for example, allow an advertiser to reach numerous countries simultaneously, thus creating regional and sometimes global demand. Global communications networks enable manufacturing personnel to coordinate production and design functions worldwide so that plants in many parts of the world may be working on the same product.

   The Internet and network computing enable small companies to compete globally because they make possible the rapid flow of information regardless of the physical location of the buyer and seller. Internet videoconferencing allows sellers to demonstrate their products to prospective buyers all over the world without the need to travel. It also permits international companies to hold corporate meetings between managers from headquarters and overseas subsidiaries without expensive, time-consuming travel. In addition, communicating by E-mail on the Internet is faster and more reliable than using postal mail and much less expensive than using a fax machine. Both Internet uses have given home office managers greater confidence in their ability to direct overseas operations.

   The ease of obtaining information and making transactions on the Internet has started to have a profound effect on many firms and especially on business-to-business commerce.* Whereas companies formerly used faxes, telephones, or mail to complete their transactions, they now use the cheaper and faster Internet. For example, Cisco Systems, a network-equipment maker, makes 80 percent of its $12 billion annual sales from its Web site.[20] The concept of using the Web to find suppliers is already established in certain industries, and more are coming online. In February 1999, Ford, General Motors (GM), and DaimlerChrysler announced a joint venture to fund and develop a Web-based trading exchange connecting all the buyers and sellers in the entire automobile supply chain. Renault and Nissan also declared their intention to join. As an example of the savings to be obtained, Ford expects to save 10 percent on the $80 billion it buys from its suppliers annually plus another $1 billion in transaction costs. A typical purchase order costs Ford $150, but an order on the exchange will cost about $15.[21] The five automakers spend roughly $700 billion annually. Similar Internet exchanges have been announced by tire manufacturers, airlines, computer companies, aerospace companies, retailers, and chemical companies.[22]

3. **Market.** As companies globalize, they also become global customers. For years, advertising agencies established offices in foreign markets when their major clients entered those markets to avoid having a competitor steal the accounts. Likewise,

*See the Chapter 1 "Internet Appendix" for information on using the Internet for international business research.

A Little Guy Makes Global Business Easier for the Little Guys

Small and Medium-Sized Enterprises

DE Technologies, a tiny private company with only six employees, has patented a technology for processing sales globally using the Internet. With this system, which is called the Electronic Commerce Backbone System (ECBS), small and medium-sized firms can export and import goods and services without previous international trade experience. The ECBS allows buyers/sellers to buy American products in the currency of the destination country, view product descriptions in the language of the destination country, view digital still or motion video displays of the products for sale, and view the calculations and displays of prices for air, land, and sea transportation; it also ensures direct payment of goods via credit cards or documentary credit.

Procedures such as the preparation and filing of export–import documents, freight, insurance, titles, letters of credit, pro forma invoices, and bills of lading are done by the program. This eliminates the necessity of engaging foreign freight forwarders, export and import agents, and other international channel of distribution members. Thus, ECBS reduces the costs of ocean and air freight, banking, and human resources.

Small and medium-sized businesses can become members by paying a small membership fee, which gives them access to the ECBS. A small transactional fee of 0.3 percent also is levied. According to the founder of DE Technologies, "the capability of the system will allow thousands of SMEs to compete effectively in the Import/Export business with 'The Big Guys' as the barriers to entry will be lowered tremendously." ■

Sources: "Cutting through a World of Red Tape," *Business Week Online,* www.businesswe...m/small biz/0006/te000628.htm?scriptFramed (June 30, 2000); "Electronic Commerce Backbone System (ECBS)," *DE Technologies Web site,* www.detechnologies.com/ecbs.htm (August 1, 2000); and "Borderless Order Entry Systems," *DE Technologies Web site,* www.detechnologies.com/boes.htm (August 1, 2000).

when an automaker, about to set up a foreign plant where there was no tire factory, asked a tire company if it was interested in setting up a plant in this new market, the response was, "When do you want us there?" It is also quite common for a global supplier to make global supply contracts with a global customer.

Finding the home market saturated also sends companies into foreign markets, especially when the marketer realizes there is a convergence of customer tastes and lifestyles brought about by increasing tourist travel, satellite TV, and global branding.

4. **Cost.** Economies of scale to reduce unit costs are always a management goal. One means of achieving them is to globalize product lines to reduce development, production, and inventory costs. The company can also locate production in countries where the costs of the factors of production are lower.

5. **Competitive.** Competition continues to increase in intensity. New firms, many from newly industrialized and developing countries, have entered world markets in automobiles and electronics, for example. As you saw in the opening incident, import penetration has increased markedly for five of the six major trading nations over the past 29 years. Another competitive driving force for globalization is the fact that companies are defending their home markets from competitors by entering the competitors' home markets to distract them (example: Kodak–Fuji).

   Many firms that would not have entered a single country because it lacked sufficient market size have established plants in the comparatively larger trading groups (European Union, ASEAN, Mercosur). It's one thing to be shut out of Belgium, but it's another to be excluded from all Europe.

The result of this rush to globalization has been an explosive growth in international business.

Explosive Growth

There has been explosive growth in both the size and the number of U.S. and foreign international concerns.

Table 1.2 FDI Indicators and Multinational Company Statistics (billions of dollars and percentages)

	Value at Current Prices (billions of dollars)			Annual Growth Rate (percent)			
	1996	1997	1998	1991–1995	1996	1997	1998
FDI data							
Inflows	359	464	644	19.6	9.1	29.4	38.7
Outflows	380	475	649	15.9	5.9	25.1	36.6
Inward stock	3,086	3,437	4,088	9.6	10.6	11.4	19.0
Outward stock	3,145	3,423	4,117	10.5	10.7	8.9	20.3
Cross-border M&As*	163	236	411	30.2	15.5	45.2	73.9
Foreign affiliate data							
Sales	9,372	9,728	11,427	10.7	11.7	3.8	17.5
Total assets	11,246	12,211	14,620	13.8	8.8	8.6	19.7
Exports	1,841	2,035	2,338	13.1	−5.8	10.5	14.9
Employment (thousands)	30,941	31,630	35,074	5.6	4.9	2.2	10.9

Note: *Majority-held investment only.

Source: "Mega Mergers Reshaping Global Production System," *UNCTAD Press Release*, TAD/INF/2821, September 23, 1999, www.unctad.org/en/press/pr2821.htm (August 3, 2000).

Foreign Direct Investment

One variable commonly used to measure where and how fast internationalization is taking place is the increase in total foreign direct investment (FDI).* For example, the world stock of FDI is estimated to have risen from $519 billion in 1980 to $4.117 *trillion* in 1998, an eightfold increase in just 18 years (see Table 1.2).

Note also that total FDI rose by nearly 40 percent to $644 billion for a record increase, while total assets of multinational foreign affiliates grew by 19.7 percent in 1998 to reach $14.62 trillion. Majority-owned cross-border mergers and acquisitions (M&As) registered a 1998 growth of $411 billion, up almost 75 percent, after rising 45 percent in 1997. Preliminary 1999 results reveal that cross-border M&As ($720 billion) continue to be the driving force behind the growth of FDI flows ($827 billion in 1999). The United States, the nation with the highest sales of companies in 1999, was replaced by the United Kingdom as the largest acquirer of foreign companies. These two countries also represent for each other the principal home country as well as host country.[23]

Number of International Companies

We also have estimates of the number of global and multidomestic firms in the world. In 1999, UNCTAD, the United Nations agency in charge of all matters relating to FDI and international corporations, estimated that there were over 60,000 companies with half a million foreign affiliates that accounted for 25 percent of global output. They accounted for two-thirds of world trade. Foreign affiliates' sales ($11 trillion) are far in excess of global trade ($7 trillion).[24] Only four years ago, UNCTAD estimated that there were only 45,000 parent companies with 280,000 foreign affiliates with sales of US$7 trillion.[25]

UNCTAD reports, "The world's largest 100 transnational corporations, measured in terms of foreign assets, hold a dominant position in the new international production system. They now account for US$4 trillion in total sales and hold a stock of total assets in excess of US$4.2 trillion." General Electric is the world's largest TNC, closely followed by the Ford Motor Company and the Royal Dutch Shell Group. What is striking is that

**Foreign direct investment* is sufficient investment to obtain significant management control. In the United States, 10 percent is sufficient; in other countries, it is not considered a direct investment until a share of 20 or 25 percent is reached.

85 of the top 100 have been on the UNCTAD list for several years. Only two, Petroleos of Venezuela and Daewoo Corporation of Korea, are from developing countries.[26]

As a result of this expansion, the foreign company's subsidiaries have become increasingly important in the industrial and economic life of many nations, developed and developing. This situation is in sharp contrast to the one that existed when the dominant economic interests were in the hands of local citizens. The expanding importance of foreign-owned firms in local economies came to be viewed by a number of governments as a threat to their autonomy. However, beginning in the 1980s, there has been a marked liberalization of government policies and attitudes toward foreign investment in both developed and developing nations. Leaders of these governments know that local firms must obtain modern commercial technology in the form of direct investment, purchase of capital goods, and the right to use the international company's expertise if they are to be competitive in world markets.*

Despite this change in attitude, there are still critics of large global firms who cite such statistics as the following to "prove" that host governments are powerless before them:

1. In 1998, only 23 nations had gross national products (GNPs) greater than the total annual sales of General Motors, the world's largest international company.
2. Also in 1998, the total amount of money spent in Wal-Mart worldwide was greater than the sum of the GNPs of over 100 nations.

As Table 1.3 indicates, these statements must be true. In fact, when nations and industrial firms are ranked by GNP and total sales, respectively, 48 of the first 100 on the list are industrial firms. While a nation's GNP and a company's sales are not comparable, they are indicators of potential power, as you will see in Chapter 10, "Political Forces." Also, regardless of the parent firm's size, each subsidiary is a local company that must comply with the laws in the country where it is located. If it does not, it can be subject to legal action or even government seizure. From 1970 to 1975 there were 336 acts of seizure, but a decade later that number dropped to just 15. Now most differences are settled by arbitration.**[27]

Recent Developments

Lessening of American Dominance?

You may have noticed in Table 1.3 that there are more Asian and European international firms than there are American. It was not always this way. Until the 1960s American multinationals clearly dominated world business, but then the situation began to change. European firms began challenging American multinationals, first in their home countries and then in third-country markets dominated by U.S. companies. By the 1970s large European and Japanese businesses were expanding their overseas production facilities faster than were American firms. To realize the change in the relative importance of American, European, and Japanese multinationals, it is helpful to compare *Fortune*'s list of the top 100 industrial firms in the world ranked according to *sales* in 1980, 1996, and 1999.[28]

1980		1996		1999	
45	United States	32	United States	35	United States
42	Western Europe	38	Western Europe	45	Western Europe
8	Japan	23	Japan	20	Japan
1	South Korea	4	South Korea		
1	Brazil	1	Brazil		
1	Mexico	1	Mexico		
1	Venezuela	1	Venezuela		
1	Canada				
100		100		100	

*Granting the right to use a firm's expertise for a fee is called *licensing*. See Chapter 2 for more details.
**These and related subjects are discussed in Chapters 10 and 11.

Table 1.3 Ranking of International Firms and Nations According to GNP or Total Sales in 1998

Ranking	Nation or Firm	GNP or Total Sales for 1998 ($ billion)
1.	United States	7,903.0
2.	Japan	4,089.1
3.	Germany	2,179.8
4.	France	1,465.4
5.	United Kingdom	1,264.3
6.	Italy	1,157.0
7.	China	923.6
8.	Brazil	767.6
9.	Canada	580.9
10.	Spain	555.2
11.	India	427.4
12.	Korea, Republic of	398.8
13.	Netherlands	389.1
14.	Australia	387.0
15.	Mexico	368.1
16.	Russian Federation	331.8
17.	Argentina	290.3
18.	Switzerland	284.1
19.	Belgium	259.0
20.	Sweden	226.5
21.	Austria	216.7
22.	Turkey	200.5
23.	Denmark	175.2
24.	*General Motors (US)*	161.3
25.	Hong Kong, China*	158.2
26.	*DaimlerChrysler (G)*	154.6
27.	Norway	152.0
28.	Poland	151.3
29.	*Ford Motor (US)*	144.4
30.	Saudi Arabia	143.4
31.	*Wal-Mart Stores (US)*	139.2
32.	South Africa	136.9
33.	Thailand	131.9
34.	Indonesia	130.6
35.	Finland	125.1
36.	Greece	123.4
37.	*Mitsui (J)*	109.4
38.	*Itochu (J)*	108.7
39.	*Mitsubishi (J)*	107.2
40.	Portugal	106.4
41.	Iran	102.2
42.	Colombia	100.7
43.	*Exxon (US)*	100.7
44.	*General Electric (US)*	100.5
45.	*Toyota (J)*	99.7
46.	Israel	96.5
47.	Singapore	95.5
48.	*Royal Dutch Shell (UK–Neth)*	93.7
49.	*Marubeni (J)*	93.6
50.	*Sumitomo (J)*	89.0

Table 1.3 (continued)

Ranking	Nation or Firm	GNP or Total Sales for 1998 ($ billion)
51.	Venezuela	82.1
52.	*IBM (US)*	81.7
53.	Malaysia	81.3
54.	Egypt	79.2
55.	Philippines	78.9
56.	*AXA (F)*	78.7
57.	*Citigroup (US)*	76.4
58.	*Volkswagen (G)*	76.3
59.	*Nippon T & T (J)*	76.1
60.	Chile	73.9
61.	Ireland	69.3
62.	*BP Amoco (UK)*	68.3
63.	*Nissho Iwai (J)*	67.7
64.	*Nippon Life Ins. (J)*	66.3
65.	*Siemens (G)*	66.0
66.	*Allianz (G)*	64.9
67.	*Hitachi (J)*	62.4
68.	Pakistan	61.5
69.	Peru	60.5
70.	*U.S. Postal Service (US)*	60.1
71.	*Matushita Elec. (J)*	59.8
72.	*Philip Morris (US)*	57.8
73.	*Ing Group (Neth)*	56.5
74.	*Boeing (US)*	56.2
75.	New Zealand	55.4
76.	*AT&T (US)*	53.6
77.	*Sony (J)*	53.2
78.	Czech Republic	53.0
79.	*Metro (G)*	52.1
80.	*Nissan Motors (J)*	51.5
81.	*Fiat (It)*	51.0
82.	*Bank of America (US)*	50.8
83.	*Nestlé (S)*	49.5
84.	Ukraine	49.2
85.	*Credit Suisse (S)*	49.1
86.	*Honda Motor (J)*	48.7
87.	United Arab Emirates	48.7
88.	*Assicurazioni Gen. (It)*	48.5
89.	*Mobil (US)*	47.7
90.	*Hewlett-Packard (US)*	47.1
91.	Algeria	46.4
92.	Hungary	45.7
93.	*Deutsche Bank (G)*	45.2
94.	*Unilever (UK–Neth)*	44.9
95.	*State Farm Ins. (US)*	44.6
96.	*Dai-Ichi Ins. (J)*	44.5
97.	Bangladesh	44.2
98.	*Veba Group (G)*	43.4
99.	*HSBC Holdings (UK)*	43.3
100.	*Toshiba (J)*	41.5

*Value is gross domestic product (GDP), not GNP.

Letters in parentheses indicate a firm's nationality: F = France, G = Germany, It = Italy, J = Japan, K = South Korea, Neth = Netherlands, S = Switzerland, UK = United Kingdom, US = United States.

Sources: "Total GNP 1998, Atlas Method," Washington, DC: World Bank, www.worldbank.org/databytopic/GNP.pdf (July 16, 2000); and "Fortune Global 5 Hundred," *Fortune*, August 2, 1999, pp. 144–F11.

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