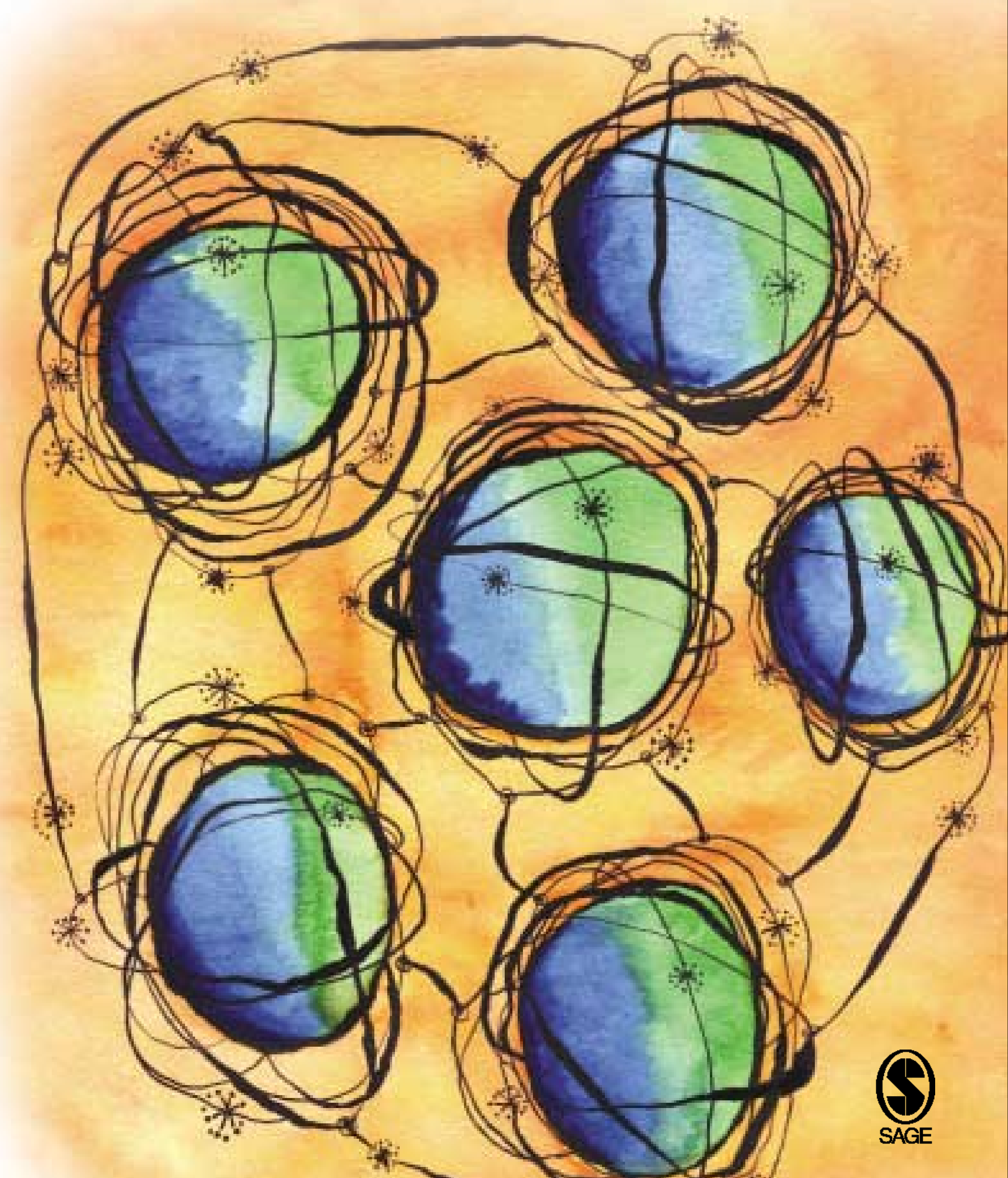
# Introduction to Globalization & Business

Barbara Parker



SAGE

# INTRODUCTION TO GLOBALIZATION AND BUSINESS

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## Relationships and Responsibilities

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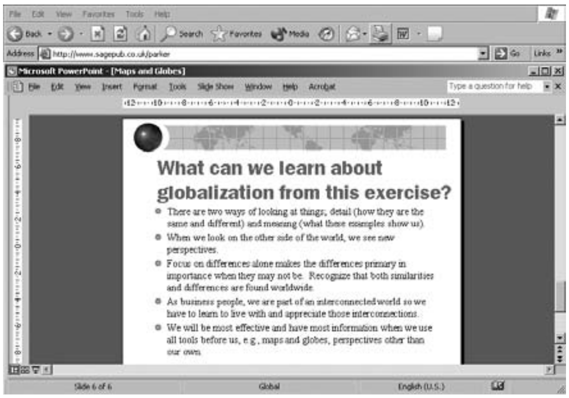
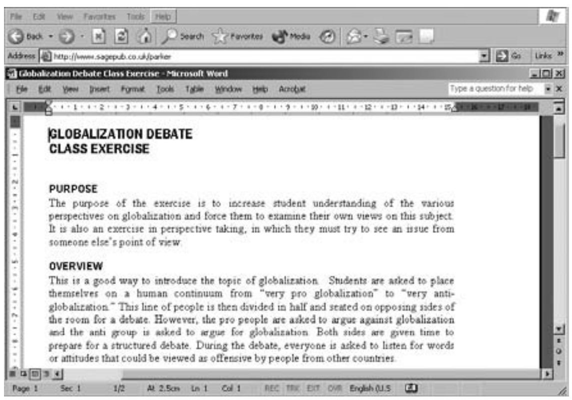



Lecture slides to facilitate group discussion

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to William Nichols

with thanks to Michelle Eldridge

# Preface

Virtually all fields of human endeavor are affected by growing worldwide interconnections. This book outlines challenges and opportunities associated with these interconnections, and it considers important questions about globalization. An operating premise is that organizational leaders and employees can better manage chaotic global interconnections by recognizing, analyzing, and addressing shifts occurring in six major global environments: industries and businesses, the natural environment, culture, economics, politics, and technology. This book also argues that successful global managers cope with global externalities by integrating internal resources of people, processes, and structures (PPS).

## ORGANIZATION AND USE OF THE TEXT

The book is appropriate for several audiences. First, it is an excellent resource for university students who wish to learn more about the globalization process and its effects on organizations. The multidisciplinary nature of globalization requires that the topic be examined through many lenses, resulting in a book that incorporates theories from many disciplines. Principles introduced are applicable to any organization, but the main focus is on business management. The book provides many organizational examples drawn from organizations of every size, found in every country, and guided by managerial motivations and practices that emerge from different cultural roots. The book's emphasis on global relationships and responsibilities also makes it useful to those interested in business/government/society interfaces. Finally, timely and thorough coverage of global shifts in culture, politics, economics, technology, industries, and the natural environment make the book an excellent resource for libraries and researchers.

Any course should begin with the introductory material found in Chapters 1–3. Chapter 1 defines globalization, distinguishes it from international activities, and presents competing worldwide perspectives on both causes and consequences of globalization. Chapter 2 outlines a systems-based model to analyze global shifts and organizational activities. The model shows that mediating organizations such as other businesses, suppliers, buyers, governmental, and nongovernmental organizations also shape an organization's responses to global shifts. Relationships with these mediating organizations further interconnect global organizations to their world. Chapter 3 outlines characteristics of the global enterprise applicable to organizations in any sector. This chapter argues that global organizations of every type face the same general challenges as do businesses.

Chapter 4 outlines the global landscape of business, demonstrating that small to medium-sized organizations as well as global giants participate in this world. Chapters 5–11 separately focus on each of the six global environments that create the context for global management. These are global industries and businesses (Chapter 5); globalization of the natural environment (Chapter 6); global culture (Chapter 7); global economics (Chapter 8 covers issues of trade, FDI, capital and financial institutions; Chapter 9's topic is global labor); Chapter 10 addresses progress and concerns of global politics; and Chapter 11 examines the impact of global technologies, especially information technologies.

In addition to laying out evidence of globalization in each global sphere, Chapters 5–11 also examine challenges of globalization. For example, Chapter 7 weighs alternative arguments of increased diversity or increased worldwide homogeneity from cultural globalization; Chapter 8 examines competing theoretical perspectives on economic development to identify a middle ground; and Chapter 9 weighs evidence for and against the benefits of labor migration. Each chapter from 5–11 presents alternative views on chapter topics to generate debate and encourage readers to develop and defend their own perspectives on globalization.

Chapters 12–16 look more specifically at how managers adapt internal structures, people, and processes to enhance global performance. Chapter 12 examines challenges for structuring global organizations. Chapter 13 and 14 concentrate on managing people. For example, Chapter 13 reviews literature on global leadership to identify common characteristics. Chapter 13 also examines managerial traits among those who are not leaders, presents career options, and outlines challenges for global human resource management systems. Chapter 14 examines the role of diversity in global organizations and weighs options for on-site and virtual teams. Chapter 15 examines two increasingly important organizational processes: corporate social responsibility and global ethics. Chapter 16 reviews processes important to global organizations such as decision-making, innovation, conflict and risk management. Chapter 17 briefly reviews text findings, further to consider managerial challenges for a global world. References are conveniently integrated and found just before a comprehensive index of course topics, organizations featured, and principles and theories presented.

Each chapter:

1. begins with a short case study to introduce chapter topics—companies from around the world are represented, including small ones;
2. provides an overview of chapter objectives;
3. contains "boxed" examples from many sources that illustrate chapter concepts; these examples come from organizations of every size and type around the world;
4. concludes with a brief chapter summary;
5. and provides a series of review and discussion questions

# Chapter 1
# AN INTRODUCTION TO GLOBALIZATION

## FRENCH FRIES GO GLOBAL

Both large and small businesses in the fast-food industry serve growing numbers of people worldwide who are too busy to cook. Combined revenues for large global competitors like McDonald's, Burger King, Pizza Hut, and KFC top $40 billion per year. McDonald's alone is the world's number one fast-food company by sales, serving burgers and fries in 100 countries in more than 30,000 restaurants. When fast-food companies such as McDonald's open stores or sell franchises in new locations, they often add or subtract items to appeal to local taste and culture. The beef-free Maharaja Mac serves India, Japan samples the Teriyaki McBurger, and there is the McSpaghetti in the Philippines and the Beetroot Burger in New Zealand.

But one thing on the menu almost never changes: the French fry. Consumers love them, and so do restaurant owners because they are the second-biggest profit maker in fast-foods. In 1989 wholesale fries sales were $1.7 billion, but they'd grown to more than $3 billion by 2003. The Netherlands is the world's largest exporter of frozen fries. Below we follow a single batch of French fries to illustrate how globalization forges interconnections worldwide.

Our fries were grown in the US Pacific Northwest by a small colony of Hutterites, a Pacifist group that fled Russia in 1873 to avoid military service. They settled first in the US, then in Canada during World War I to avoid conscription. Today they have colonies throughout North America. Members of the group sometimes speak a Tyrolean dialect of German, sometimes English. They are isolated culturally and geographically, but their fortunes rest on world trends and in part on fast-food sales a half a world away.

The Hutterites grow potatoes in circles of land that contain 5,000 tons of potatoes, or enough to make 14 million servings of fries. Seen from the air, the circles look like aliens carved them, but they are centered around pivot irrigation systems that revolutionized agriculture regions like Oregon where rainfall is sparse. The otherwise simple lives of the Hutterites are complicated by sophisticated tractors and other farm equipment that meet demands for farm specialization, efficiency, and flexibility. Although they don't have television, the Hutterites use personal computers for work and education to keep up with global trends that affect the agricultural industry.

After harvest, the potatoes are trucked to a J.R. Simplot plant. Simplot is credited with inventing the frozen French fry, but it was Ray Kroc of McDonald's who popularized it on a worldwide basis. Mass production of the fries for McDonald's drove down costs, and increased profits on the French fry.

Simplot buys raw potatoes for about five cents per pound, processing adds 25 cents per pound, and when cooked they are sold at US outlets for about $3.65 per pound. Simplot's company produces more French fries for McDonald's than any other producer, and sends about 4 million pounds of frozen fries to Asia each week. Exporting to Muslim nations such as Indonesia requires Halal certification to assure Islamic customers that the food is prepared according to strict Muslim standards. This required Simplot to hire Mohamad Joban, an Egyptian-trained Muslim cleric to conduct the inspection. When approved, the fries can be readied for Indonesia's market.

After arrival at the Simplot plant, the Hutterite potatoes are dumped on a conveyor belt made by Spudnik Equipment Company—a small Idaho company. Water pressure of

35 mph shoots the potatoes to laser-guided brass blades that yield perfect quarter inch slices. The fries are then partially cooked, dried, flash frozen, and packaged. The entire process from conveyor belt to frozen fries takes 45 minutes.

Ninety-five percent of all foreign trade travels by ship, and our fries are no exception. In the process, the transaction will pass through many hands, including freight forwarders, truckers, longshoremen, shippers, agents, importers and franchisers before arriving at Indonesian tables. One hundred and thirteen thousand servings of the Hutterite fries are loaded onto refrigerated trucks bound for the Port of Tacoma. There they meet the *Dagmar Maersk*, which sails under the Danish flag. The ship was built in South Korea; a German captains it; its crew comes in part from the Pacific islands, and it is bound for Asia. Above the fries, the longshoremen load a box of apples heading for Kuwait.

The *Dagmar Maersk* heads to Asia. Port cranes are so speedy that the crew has little off ship time in Yokohama, Shimizu, and Kobe, Japan stops. The *Dagmar Maersk* sails on to Indonesia. Rough weather in Taiwan, and a failed emergency beacon halt progress. Part of a global system for shipping,[1] the beacon must be fixed. An Australian engineer climbs on board, makes the adjustments, and the fries are back on their way.

Meanwhile, there is trouble in Asia. In 1997 currency traders observed that Thailand had a growing trade deficit. To hedge their risk in the Thai bhat, traders converted their holdings to dollars. These sales depressed the value of the bhat, leading to further sell offs that eventually took the bhat to half of its former dollar value.

The economic crisis spread as currencies in other Southeast Asian nations also began to drop. The Indonesian rupiah began to fall in December, and eventually would lose more than 80 percent of its dollar value. Meanwhile, about $50 million dollars per day were transferred out of Indonesia to the relative safety of Singapore's banks.

The French fry is but one indicator of economic prosperity. The more a country develops economically, the more French fries people consume. The reverse is also true; when economies falter, French fries and fast-foods become a luxury that fewer can afford.

In Indonesia, the currency crisis saw the price of a Big Mac triple. Because restaurants paid for imported wholesale fries in dollars, their costs soared. Customers could not meet price increases, and began to consume rice and egg dishes that McDonald's added to their Indonesia menus. But McDonald's sales plunged. Theirs and other US stores became targets for critics of globalization. One third of the restaurants that purchased French fries from Simplot were burned, including about 10 McDonald's. Anti-foreign and anti-Chinese riots to follow took 500 lives.

In view of the Indonesian crisis, the Hutterites' potatoes were diverted to Singapore's more stable economy. On an early evening there Ernest Enver—a descendant of Russian Jews—met his wife Becky and three children in one of Singapore's McDonald's. Becky is of Chinese heritage, and the family is Roman Catholic. They ordered up servings of fries that took only seven minutes to reach crispy brown perfection.

**The Aftermath**

Mercy Corps, an international nongovernmental organization (INGO) that provides food and medical relief, distributed donated US wheat to Indonesians. Farmers in Canada and Australia who usually sell wheat to Indonesia were not happy to be edged out of wheat sales. And fast-food restaurants witnessed a drop in sales of fries.

Thanks to International Monetary Fund (IMF) pressures, several nations cut tariffs on French fries. One of the forces behind that pressure was the American Potato Trade Alliance, a nongovernmental organization of growers, processors, marketers, and fast-food managers.

Due to the Asian economic downturn, a planned factory to convert rejected French fries into ethanol was shelved. South Korean distillers wanted to ship the ethanol to South Korea for soju production, but they had to back out as lead investors when the cost of debt increased due to the currency crisis

In China, Liu Zai Jiang plows four acres planted with potatoes for J.R. Simplot. These potatoes will go to a small Beijing plant that produces about the same amount of French fries in a year as can be made in a week in US plants. But Simplot is always looking for new sources of potatoes, and through small ventures with farmers like Liu, his company now produces 70 percent of the fries for McDonald's China stores.

McDonald's managed to increase its market share in Japan, even as it lost sales in Indonesia. McDonald's has more than 2,500 Japanese outlets. In Singapore where the economy remained stable, sales of fries and other fast-food remained stable. During the currency crisis, McDonald's announced plans to invest over a billion in Asia for the coming years. The strong dollar would reduce ordinary costs of land and equipment for expansion. McDonald's also expanded in Russia and Brazil. All over the world it is installing McInternet—McDonald's digital inclusion project. New products such as the McCafe have been introduced, and cultural demands for healthier food motivate McDonald's to offer salads and other low-calorie fare.

Parent Diageo sold Burger King Restaurants to a private investor group; they vow to compete to win against McDonald's for world fast-food sales. Fast-food giant Jollibee has expanded from its base in the Philippines into US markets, and Hong Kong based Café de Coral means to make Chinese fast-food the next global food source.

In June of 1998 the financial panic spread from Asia to Russia and Latin America. In 2000 a technology-led boom in the US turned to bust, plunging the US and much of the world into economic slowdowns. In Africa, trade fell from small numbers to even smaller numbers, further plunging sub-Saharan Africa into dire economic conditions.

By 2005, French-fry consumption had slowed due to nutritional concerns, and world-wide evidence of "globesity" traced to consumption of fat-laden foods. McDonald's responded to these concerns with new offerings that included salads and smaller portions.

Examples above cover many topics we will study in this book. Global economics, politics, businesses and industries, as well as culture, technology, and the natural environment all interconnect. Their effects on business practices and the lives and livelihoods of the planet's six billion people vary. As the example above shows, there are critics of globalization as well as champions for it.

Source material: Richard Read (1998, Oct. 18–21) The French fry connection. *The Oregonian*, multiple pages.

## CHAPTER OVERVIEW

This chapter defines globalization, showing how studies of globalization differ from studies of internationalization. The chapter also describes critical managerial abilities and skills for a more global world. Three competing perspectives on globalization are presented to show how each informs management practice. The chapter concludes with a look at the challenges globalization creates for managing organizations and careers.

## DEFINITIONS FOR GLOBALIZATION

The word "globalization" is in daily use throughout the world. Variously referred to as *mondialisation* in French, *globalisierung* in German, or *Quan qui hua* in China (Scholte, 1996), news articles, television, and even textbooks often use the word "globalization" to mean many different things. Author Jan Pieterse (1995) asserts there are almost as many conceptualizations of globalization as there are disciplines in the social sciences. Teachers and scholars in disciplines such as management, marketing, finance, accounting, and economics also use the word "globalization" to mean different things.

For example, some believe globalization is the absence of borders and barriers to trade between nations (Ohmae, 1995), but also it has been described as a shift in traditional patterns of international production, investment, and trade (Dicken, 1992). Another popular conception of globalization is that it is a business strategy that means doing everything the same everywhere (Kanter and Dretler, 1998). Others believe globalization is interconnections between overlapping interests of business and society (Brown, 1992; Renesch, 1992). As you can see, these definitions differ in significant ways. Because definitions, descriptions, and visions of globalization vary widely, it is difficult to know what it means for businesses to go "global." We therefore begin to explore globalization by defining the term.

**Globalization Defined**

Globalization is a process whereby worldwide interconnections in virtually every sphere of activity are growing. Some of these interconnections lead to integration/unity worldwide; others do not. Together global interconnections and the relationships they forge represent a historically unprecedented process that is rapidly reshaping the context for many activities (Held et al., 1999). The result is blurred boundaries within and between organizations, nations, and global interests. This book is about how globalization affects organizations, and it concentrates on six spheres of activity where global interconnections are occurring. These are: global business and industry activities; the natural environment; global culture; global politics; global economics; and global technologies.

Worldwide interconnections occur within single spheres of activity such as economics to create tighter links within the global economy. These links are reflected in relationships between foreign direct investments, capital, and labor. But globalization is more than direct and discrete linkages. Multiple relationships interconnect different environments when global activities occurring in one sphere interact with activities in other spheres. An example is the middle-class phenomenon of global teens who share interests, fashions, and musical tastes worldwide. Emergence of a global teen is a cultural phenomenon, but the worldwide spread of common interests occurs because there is a global telecommunications infrastructure, and businesses and industries able to produce global brands for the global teen. A global political environment facilitates trade, and a global economy and natural environment support it.

Thus, what might seem like an isolated activity in a single global sphere creates first-order effects, then spills over into second-, third-, and subsequent-order effects as they relate to one another. A great example of the spillover effect begins with satellite technology.

**Order Effects of a Simple Change**

1. One first-order effect of satellite technology is to make television broadcasts available almost everywhere in the world.
2. A second-order effect is that people watch more television and then interact less with members of their own local communities. Ideas that television fosters may help people align more with national or global communities of interests.
3. These new interrelations create cultural sharing or borrowing.
4. Television also exposes people to new products and services to create needs and wants that differ from existing habits. The effects of these shifts are multiple: more global opportunities arise for businesses and other organizations; governments may face new challenges to create rules and regulations for businesses that cross traditional borders; growing trade stimulates the local economy and the world economy; and so on.

There are many other ways that a seemingly simple service like satellite television interconnects the world. What this example demonstrates best is that first-order effects of globalization in each sphere forge interconnections and stimulate subsequent-order effects in other spheres of global activity. Many of these effects are unpredictable and, as shown later in this chapter, some argue that unpredictability alone is a reason to comdemn globalization.

## FOUR MAIN CHARACTERISTICS OF GLOBALIZATION

Globalization is characterized by: growing worldwide interconnections; rapid, discontinuous change; growing numbers and diversity of participants; and greater managerial complexity. Each of these is explored below.

## Growing Worldwide Interconnections

Growing worldwide interconnections is one characteristic of globalization. Examples above from satellite television and the global teen show us that distinct events stimulate global interconnections, but the path for these interconnections is not always clear or steady. Some interconnections can be predicted, others cannot. Moreover, factors other than globalization also shape events. For example, proximity to vibrant markets, a transportation infrastructure, and abundant natural resources draw a people, nation, or region into global trade and other activities. Poor infrastructure and "poor geography" are some reasons countries like Chad and Mali are not well integrated in the global economy (Dollar and Kraay, 2002). These and many different reasons including, political corruption, opportunity, educational constraints, natural disasters, limited resources, and interest in being global explain why a nation and its people are more or less globally connected.

## Rapid, Discontinuous Change

A second characteristic of globalization is that this process has occurred rapidly but not at a steady pace. In other words, a chart of global interconnections would follow an upward slope, but the regression line would not be a smooth one. Instead, growing interconnections are discontinuous, following a jagged upward slope. For example, global interconnections tended to slow after the 1997 Asian economic crisis, then they surged, slowed again, and repeated that pattern. According to a study produced by the US Institute of International Finance, nations affected by the Asian economic crisis also experienced different effects. Japan's estimated loss was 1.4 percent of its 1997 GDP compared to a 0.7 percent loss in the US and 0.6 percent in the EU. In turn, China and Mexico witnessed estimated losses of $21 billion and $6 billion due to reduced export opportunities to the US and Canada (Lachica, 1998). Discontinuities in the pace of change make it difficult for organizations and individuals to anticipate, interpret, or plan for the future.

Another source of discontinuity is that events that have global importance travel the world at different speeds and with differential effects. Accordingly, interconnections can affect nations, industries, businesses, and individuals at different times and in different ways. In other words, the effect of the same global event can differ. The example of the 1997 Asian economic crisis also shows how this happens. The world economy took a dip, but major effects were felt first and later most affected the economies of Thailand, Indonesia, and South Korea. This suggests that when we look at global events and interconnections, we must remember that nations and businesses can experience these connections in different ways. In other words, the process of globalization is disorganized and incoherent (Veseth, 1998).

## Increased Number and Diversity of Participants

A third characteristic of globalization is growth in the numbers and diversity of actors involved in global activities. For example, participants in global business activities now include many small-to-medium-sized enterprises (SMEs) as well as large ones. Companies from developing and small economies also participate, as do firms that are owned privately and publicly. The boundaries that once constrained business activities now are more permeable to many more people and organizations worldwide. This increases diversity among participants. To the extent that global markets are characterized by multiple competitors that vary in size, shape, motives, and behaviors, global management may be said to be both less certain and therefore more complex than when market competitors, buyers, and other organizations are of equal size, share motives, or come from similar national cultures.

### The Global Spice Trade

Spices have moved globally for thousands of years. For example, Egyptian records indicate that laborers were strengthened with imported spices as early as 2600 BC. Wars were fought, dominion established, and businesses founded to move spices around the world. Today the spice trade is populated by large and small businesses. The world's biggest spice-trading firm Man Producten is located in the Netherlands, spice suppliers operate in India, China, Indonesia, Brazil, the Seychelles, and many other countries, and the livelihood of individual dealers such as Thomas Thomas in Kerala, India depends on understanding this global market. Accordingly, when buying spices Mr. Thomas knows the latest prices in New York and Rotterdam. But he too is affected by global information expansion because individual farmers now find it possible to ship their produce directly to trading centers.

Source material: A taste of adventure. (1998, Dec. 19) *The Economist*, pp. 51–55.

## Growing Complexity

Finally, the "one world" characterization of globalization exposes most of us to many more people and ideas whose perspectives on globalization differ. Domestic questions that once seemed to have simple answers become more complex when we realize that others worldwide have different "simple" answers to the same questions. Complexity increases again when there are different answers to the same question, and it gives rise to new questions about values and preferences. Later chapters explore the challenges of complexity in much greater depth. Here it is sufficient to note that although the world's people are increasingly interconnected, they have different perspectives on interconnections. Put another way, the strength, experience, and evaluations of global interconnections differ around the world. The same global event may be perceived to create opportunities for some and create threats for others. Neither does the world think as one with respect to business activities: some believe global business benefits the world and others believe it degrades it.

These four characteristics of globalization generate complex management challenges. In the following section we see that these challenges can differ in important ways from challenges that arise when managing in a strictly international world.

## DISTINCTIONS BETWEEN INTERNATIONAL AND GLOBAL MANAGEMENT

The many differing definitions of globalization can be confusing. One source of confusion is that some use the term "globalization" to mean the same thing as "internationalization." This book distinguishes between the terms in two ways: the relative emphasis of each on nations, and managerial abilities and skills required.

### Emphasis on Nations vs. the World

As the definition implies, international business focusses on relationships *between* nations. In global business the focus is on activities that transcend nations. Author Koh Sera clarifies this distinction in the following paragraph:

> *... internationalization connotes expanding interfaces between nations sometimes implying political invasion or domination. Internationalization of business, therefore, is a concept of an action in which nationality is strongly in people's consciousness. It means the flow of business, goods or capital from one country into another. Globalization, by contrast, looks at the whole world as being nationless and borderless. Goods, capital, and people have to be moving freely ... (1992: 89)*

For businesses, the internationalization process often involves extension of existing economic activities into new nations. Dicken describes this as "essentially, a *quantitative* process that leads to a more extensive geographical pattern of economic activity" (1998: 5).

International studies typically examine similarities and differences between nations that facilitate the extension process. For example, international business courses look at theories of business internationalization. A guiding principle for international business is that national differences influence organizational behavior. In international management courses, the extension process would emphasize learning about other nations and cultural awareness. Content emphasis is likely to include background knowledge about various nations such as geographic location, languages in use, religion, government, and how to apply existing theories in international settings. Additionally, an international management course examines cross-cultural theories for conducting business between nations. This means examining the values, assumptions, and behaviors that guide business practices in each nation. For example, US students learn that Japanese business people bow in greeting. By contrast, Japanese business students learn that US business people shake hands as a greeting. Often the adaptive process means learning the "best way" for a manager to navigate in another culture. Thus, a US business person might bow to a Japanese business person and the reverse.

## International vs. Global Management Skills and Abilities

Skills emphasized in international management include self- and cultural-awareness, as well as appropriate interpersonal and communication skills for managing between national cultures. Cross-cultural negotiation, decision-making, or motivating and leading in another country also are skill-based topics for international management.

Global management is defined by interconnections and interdependencies among people and organizations rather than simply between nations. Accordingly, global managers need to learn more about these interconnections and what it means to do business in "one world" as well as in an international world. As noted above, this interconnected world is more complex and affects how we manage organizations and ourselves. Dicken (1998) notes that with globalization, businesses do more than extend existing practices because they must alter existing practices to be integrated worldwide. This represents a *qualitative* difference from internationalization processes. At the managerial level, we see the challenge of integration when a US manager meets one Japanese business manager who shakes hands, another who bows, and a third who does neither. Each has been exposed to the world and adopted different practices from it. The point is that in a global world we need to reconsider appropriate behavior, and examine skills and abilities that a manager needs for an interconnected world.

### A Global Mindset

Many argue that global managers need to develop a global mindset (Moran and Riesenberger (1994), but there are different definitions of it. For example, Harveston et al. describe a global mindset as "the propensity of managers to engage in proactive and visionary behaviors in order to achieve strategic objectives" (2000: 92). Begley and Boyd (2003) describe it as "the ability to develop and interpret criteria for business performance that are not dependent on the assumptions of a single country, culture or context and to implement those criteria appropriately in different countries, cultures and contexts" (2003: 25). In general, most agree that a global mindset is a way of thinking that shapes action. Both thought and action require simultaneity, for example to see the "big picture" and the details; to acknowledge and reconcile norms that may differ worldwide; to balance among conflicting objectives, and so on. Finally, a global mindset calls for disciplined managerial effort to weave together diverse strands of knowledge about others into a cohesive and integrated framework (Gupta and Govindarajan, 2002). Stephen Rhinesmith (2000) argues that the global mindset differs profoundly from mindsets more typical for a domestic Western environment. Some of these differences are listed in Table 1.1 to show that Western firms encourage a domestic mindset in several ways: by hiring people trained in a particular specialist function, for example, marketing, accounting, finance, and management, by encouraging decision-making that follows a rational, step-by-step process, by using hierarchical organizational structures, and by rewarding individual initiative.

## A Comparison of International and Global Mindsets

**Table 1.1** *A comparison of international and global mindsets*

| Domestic Mindset | Global Mindset |
|---|---|
| 1 Expertise in a functional area, e.g., marketing, accounting, finance | 1 Expertise in many areas supported by a broad view of the organization |
| 2 Prioritizing in a step-by-step linear fashion | 2 Need to balance contradictions and paradoxes that are non-linear |
| 3 Emphasis on hierarchical structure | 3 Emphasis on processes |
| 4 Individual responsibility is encouraged | 4 Teamwork and diversity are encouraged |
| 5 Eliminate surprises because they are threats | 5 View change as an opportunity |

Source material: Stephen H. Rhinesmith (1993) *A Manager's Guide to Globalization*. Homewood, IL: Business One Irwin.

By contrast, a more global mindset calls for generalized and broad expertise rather than a narrow specialty, a less definitive set of decision rules, and an emphasis on processes. Global mindsets also call for teamwork and diversity. This comparison of a Western domestic mindset and a more global one shows where problems might arise. That is, teamwork produces a challenge for individuals who best know how to "go it alone."

The global mindset also calls for managers to balance among conflicting priorities and contradictions. This also creates a challenge for Westerners when custom includes using straightforward and rational decision-making techniques. These examples show why people trained in a Western culture may find it difficult to adapt to a global mindset.

## Domestic Mindsets Outside the Western Tradition

Looking outside the Western tradition shows different challenges for developing a global mindset. Throughout much of Asia and Latin America, for example, a traditional domestic mindset emphasizes a form of collectivism that puts group needs ahead of individual ones (Hofstede, 1980). For example, Japanese people traditionally are socialized to work in groups. In the workplace, the group's importance is reinforced by mechanisms that include:

1. At the level of persons, permanent employees are hired once a year in a group; assigned to a work group rather than a job; function in and are evaluated on the basis of their team's work.
2. At the organizational level, Japanese firms operate as horizontally integrated industrial groups to join forces with companies in different industries or vertically integrated keiretsus to join forces with buyers and suppliers within the same industry (Sai, 1995).

High homogeneity in Japan also causes some managers there to view cultural diversity as a threat (Dufour, 1994). Thus we see that domestic mindsets in Japan will facilitate teamwork required by a global mindset, but may at the same time discourage the diversity that also is part of a global world.

In the Vedantic tradition that emerged from Hinduism, appropriate domestic mindsets include putting aside individualism to strive for human unity. This requires ultimate reliance on people and human processes rather than on organizations or systems (Chakraborty, 1995). This example suggests that a person with a Vedantic mindset may emphasize the processes important to a global mindset, but may not want to develop them within organizations. The examples Rhinesmith provides and those from Japan and India illustrate that people come from different traditions. Each person is challenged to develop a more global mindset, but the nature of this challenge varies according to the values instilled by distinctive domestic traditions. Thus, developing a global mindset may begin with examining one's own domestic mindset and its applicability to a global world. This begins with an understanding of how a domestic mindset develops.

### Framing Information

One's mindset is shaped by how we frame information. Goffman (1974) describes framing as the process whereby a decision-maker organizes a set of occurrences into a coherent framework. Most of us develop mental frameworks to identify priorities and shape action. Although the framework may not be a conscious one, it nevertheless shapes action. To paraphrase Albert Einstein—our theories determine what we measure and where we put our attention. The frames managers use to interpret domestic business must expand for global business. A universal challenge is to expand one's global mindset to solve problems and make decisions when change is rapid and uncertainties many.

### The Global Mindset in Business

According to a review by Morgan McCall, Jr. and George Hollenbeck (2002), the term "global mindset" was introduced by Christopher Bartlett and Sumantra Ghoshal in 1992. Researchers agree that a global mindset is important to global managers. Research conducted by Harveston et al. (2000) showed that managers of "born global" firms have a more global mindset than do managers of firms that globalize gradually. Kobrin (1994) found that larger firms with a more world-oriented mindset were more likely to enter international markets quickly, and Cavusgil and Knight (1997) similarly found that managers of born global firms create their own opportunities when they think in terms of the world as their market. These findings suggest that a global mindset may be an important predictor of both how the leader views the business world and the business activities that follow. The boxed example shows how Eastman Kodak's CEO views mindsets.

**Mindsets at Eastman Kodak**

Wiley Bourne, CEO of Eastman Kodak, argues that being global also means changing mindsets at every organizational level. In the case of Eastman Kodak, this meant doing more than talking about being global. It meant educating others about how a global stance differed from Kodak's traditional stance as an "opportunistic exploiter," and it required training, rewards, resources, and alterations in existing processes, structures, and hiring patterns. For example, Kodak began to send women abroad as expatriate managers, and they began to hire and develop foreign nationals for leadership positions.

Source material: Wiley Bourne (1996, June/July) Old lessons, new perspectives: Moving toward a global mindset. *Executive Speeches*, pp. 1–4.

Changes in organizational mindsets require more than cosmetic changes. For example, Prahalad and Lieberthal (1998) argue that corporate success in emerging markets such as China, India, Brazil, or Indonesia depends on developing new mindsets that lead to new business models.

### Developing the Global Mindset

Ways to develop a more global mindset are outlined by Gupta and Govindarajan (2002) who indicate that the speed with which an individual develops a global mindset is driven by four forces:

1. Curiosity about the world and a desire to become smarter about how the world works
2. Self-conscious awareness of one's current mindset
3. Exposure to different experiences and to diversity
4. A disciplined effort to weave together diverse strands of knowledge about others into a cohesive and integrated framework.

In summary, a global world requires a global mindset. Managers develop this mindset by incorporating complexity in their thinking. This helps managers develop a broader perspective on events, it helps them organize these events into broader frameworks, and it helps them make decisions that incorporate more data and more contradictions in decision-making. It follows that a global mindset is particularly useful when responding to problems and challenges that represent global dilemmas.

## Global Management Skills

Many studies of global managers have been conducted in the past decade. Those studies—reviewed in greater depth in Chapter 13—show that the global manager calls upon many different skills and abilities, including six upon which most scholars agree. That is, important skills and abilities recommended for all global managers are:

1. A global mindset
2. Know the business and its environment
3. Create and convey a clear vision with integrity
4. Develop self-awareness and self-understanding
5. Be able to manage diversity
6. Continuously learn.

Because the globalization process is discontinuous and events that interconnect us vary around the world, managers may best prepare for a global world by developing expertise with varied managerial tools and techniques. Global techniques and theories may be needed to address one set of challenges, but international techniques may be more useful in another setting. This blending of techniques and constant re-examination of activities and options creates challenges for global organizations and managers. Put another way, the either/or approach to managing between nations becomes a "both/and" and even a "many/and" approach to managing in one world. The leadership task becomes more complex and uncertainties are many when managing the tensions among local, international, and global demands.

## MANAGEMENT THEORY AND GLOBALIZATION

Henry Luce characterized the twentieth century as "the American century," a characterization that seemed to be borne out by post-1945 events. Organizational research also was characterized by "American researchers focussed on American firms, American perspectives, and those questions most salient to American managers" (Boyacigiller and Adler, 1991: 264). Although most would agree that US organizations are important players in global business, theories based solely on their experiences or on the experiences of only large, or only Western, or only Japanese firms necessarily impose limits on our understanding of managing globally.

In a more complex and global business world, there may be few management universals (Hu, 1992; McCall and Hollenbeck, 2002). According to Scott Cowan in his 1996 address as outgoing President of what was then the American Assembly of Collegiate Schools of Business (AACSB), for the first time management theory lagged behind management practice because practitioners more than academics were at the leading edge of management. For those schooled in competition, the fact that practitioners lead theorists might appear to be a threat. But for those engaged in the more cooperative world of global business and global-business theory, the important thing may be how academics and practitioners jointly learn more about survival and success in global business.

It is also important to look at activities and theories that reflect diverse organizational efforts in a global world. In the business world, we learn most by examining activities of global business giants and also at the roles SMEs play in business globalization. Additionally, given growing interconnections and other characteristics of globalization, it is important to look at the roles that governmental and nongovernmental organizations play in shaping global business. That is, the interconnections that shape one world have implications for managing everywhere and in all kinds of organizations. Moreover, as demonstrated in chapters to follow, a trend among global organizations is to position themselves as world citizens as well as residents of more localized communities. The many managerial implications of these and other global business shifts are explored throughout this book. In the next section we see that the process of globalization is not a smooth one, nor do people see it in the same way.

## PERSPECTIVES ON GLOBALIZATION

There are many differing perspectives on globalization. These have been organized around three broad schools of thought which Held and others (1999) define as skeptical, hyperglobalist, and transformationalist. A review of these three perspectives shows how the same category can encompass ideas whose underpinnings differ significantly. Additionally, we look at the managerial implications of each.

### The Skeptical Thesis of Globalization

Some assert that globalization is, in a word, "globaloney." This "skeptical" thesis is based on two main arguments: history has seen other periods of growing interconnections, and the future will be much like the past.

#### History Repeats Itself

Historical support for the skeptic's argument focusses on different time periods, but the general point is the same: globalization is nothing new. In a UN address delivered in 2001, Ugandan President Museveni (2001) argued that African slaves have been globalized since the 1440s. Flynn and Giraldez (2002) argue that the world economy began in the 1570s with trade links that emerged between Asia, Africa, Europe, and the Americas. Silver mined in the Spanish colony of Manila was shipped to China, providing direct connections among all the world's populated continents.

According to Anthony Sampson, author of *Company Man* (1995), the forerunners of today's corporations were collaborative arrangements among European merchants during the Crusades. The charters of these business organizations were to return profits to owners. The less successful fell prey to pirates, to each other, to resistance to colonization, to weather, or to other forces, but the successful ones returned from abroad with new wealth for owners. According to John Keay, author of *The Honourable Company: A History of the English East India Company* (1991), at the height of its influence in the early nineteenth century, the English East India Company controlled nearly half of the world's trade in a business empire that stretched from England to India and throughout Asia. In the same time period, the Dutch East India Company established itself as a rival firm by supplying spices and other valuables to a willing European market. Wealth creation stimulated significant export activity throughout the 1800s and 1900s. Like today, this wealth was based on all types of industries.

For example, Worcestershire sauce was developed and introduced to the world in 1834. Its basis is an Indian recipe that contains vinegar, molasses, sugar, Spanish anchovies, black Calcutta tamarinds, Dutch shallots, Chinese chiles, Madagascar cloves, French garlic, and secret ingredients. In the 1990s, autos, motorcycles, food, and even insurance were sold outside their home countries. The profit generated by global sauces, autos, and services was an important factor in the 1800s, and it remains an important business objective in a more global world.

Other authors believe globalization began in about 1840. In comparing the post-1945 process of globalization to the years between 1840 and 1914, economists Kevin O'Rourke and Jeffrey Williamson (2000) note that in the earlier period transportation costs fell faster, cross-national trade barriers were fewer, more capital flowed across national boundaries with more volatility, and cross-border migration was far greater than it is today. Contemporary increases in economic inequalities in rich countries and decreased economic inequalities in poor countries also occurred in the nineteenth century (Williamson, 1996).

### What's Important Remains the Same

The second thread of the skeptic argument is that nations remain central to business activities. That is, the historical events and geographic concerns that shaped today's nation-states will also be important in the future (Veseth, 1998). This thread of the skeptic's argument is bolstered by evidence showing that many global firms are as firmly rooted within national cultures and practices as in the past. For example, membership on boards of directors in all corporations is drawn almost exclusively from a company's headquarters (Hu, 1992), and stock ownership is concentrated largely in country of origin, often in the hands of just a few. Others argue there are no or few truly global organizations. For example, Lipsey et al. (2000) note that large corporations account for about the same amount of the world's output in 1990 (22 percent) as they did in 1980. Using a definition that requires a business to both produce and sell in global pools, Veseth (1998) also claims there are few global businesses. Rugman (2001) believes that businesses are national or at best regional.

## The Skeptical Thesis and Business Activities

Since, as was argued earlier, business activities result from a manager's frame of reference, it follows that how one defines the organization's place in the world shapes strategy and other business activities. The skeptic's point of view on globalization is that business is and remains international. If globalization is nothing new, then globalization of business is simply business as usual. Having defined itself as nation-based, the leader who perceives globalization to be internationalization is likely to scan external boundaries from a domestic base, fixing attention on flows of business, goods or capital from one country into another. Assessing these flows involves boundary scanning that begins at a national level and expands to encompass international opportunities. Rather than scan the latter directly, the firm defined as international might rely on its national government to identify emerging business opportunities abroad. This firm also might draw guidance from existing theories of internationalization, perhaps adopting an evolutionary approach such as internationalization processes, product life cycles (Vernon, 1966), or portfolio theories when operating abroad.

In summary, nation-based firms that view globalization as “nothing new” will respond with activities consistent with the more international or country-to-country approach developed over the last fifty years. In a practical sense, this means that businesses can best expand into international markets by following principles built around a world largely defined by commerce between nations.

## The Limits of Skepticism

Van Bergeijk and Mensink (1997) refute the skeptical argument. They argue that when recalculated in current dollars the trade figures cited by Krugman (1996) and others show that real growth of trade is extremely strong and persistent and that the export ratio of GDP has also increased very rapidly since the mid-1980s. Similarly, Govindarajan and Gupta (2000) calculate that world trade in services and goods is about 25 percent of world GDP as compared to 10 percent about thirty years ago. Points made by the latter authors suggest that globalization represents something other than a repeat of past occurrences.

The skeptical argument takes a limited view of the world by comparing today’s activities to those of an earlier era. According to Keohane and Nye, the issue is not how old globalization is, but rather “how ‘thin’ or ‘thick’ it is at any given time” (2000: 7). These authors illustrate their point as follows:

> *An example of “thin globalization,” the Silk Road provided an economic and cultural link between ancient Europe and Asia, but the route was plied by a small group of hardy traders, and the goods that were traded back and forth had a direct impact primarily on a small (and relatively elite) stratum of consumers along the road. In contrast, “thick” relations of globalization involve many relationships that are intensive as well as extensive: long-distance flows that are large and continuous, affecting the lives of many people.*

Keohane and Nye conclude that globalization today represents “thick” relationships that involve many people and relationships in interconnected networks.

## The Hyperglobalist Thesis of Globalization

A different perspective on globalization called “hyperglobalism” asserts that globalization is a new stage of human history through which the power of nation-states is supplanted by business activities (Ohmae, 1995). This means that businesses more than nation-states will become the “primary economic and political units of world society” (Held et al., 1999: 3). Hyperglobalists usually agree that globalization is an economic phenomenon, but they disagree on why and how businesses participate in the process. Two different perspectives are reviewed below.

## Businesses as Self-interested Actors

The self-interested nature of business motivates managers to pursue profit in an interdependent world. The self-interest perspective views organizations as dispassionate actors on a global scale working pragmatically in pursuit of their own ends, e.g. profits and survival. Luttwak (1999) believes businesses are victims of a turbo-charged capitalism. They are forced to rapid action because competitors otherwise will do it first. Under these conditions, businesses are little more than isolated actors in a global market where rules of profitability and survival are governed by supercharged market forces. According to Scholte (1996), this more liberal perspective on globalization can view organizational actors and market forces as part of a benign and even beneficial process.

In a global world, self-interest could mean linking with suppliers and buyers or even with competitors to satisfy self-interest. It almost certainly means relocating jobs to low-wage economies because to do otherwise is to lose out to competitors. It can then be argued that linked worldwide production chains simply help businesses operate efficiently and survive in a competitive world. Although some believe that markets will correct themselves to assure that abuses do not occur, a concern is that governments may be motivated to comply with lower labor standards or compromise environmental protections to attract business investments. In this way the interests of global business may overpower national interests.

## Businesses Conspire to Supplant National Power

The hyperglobalism theme explored above looks primarily at how indifferent markets displace or reshape the authority of national governments. A different perspective asserts that business self-interest has a malevolent character. This perspective is explored below.

### The Anti-globalization Protest Movement

Anti-globalization protesters share three general concerns about globalization. They believe that capitalism as a system cannot reasonably address social-justice issues; they believe that multinational corporations are at the heart of the globalization problem; and they believe that even if globalization increases overall wealth worldwide, it will have malignant effects on poverty, literacy, diversity, gender equality, and cultures. The main charge leveled against businesses is that they create monopolies that exploit workers abroad. They cannot be stopped because there are no globally shared regulations coming from the political sphere.

Source material: Jagdish Bhagwati (2002) Coping with anti-globalization. *Foreign Affairs*, 81 (1): 2–8.

A New World Order perspective on hyperglobalism argues that global-business primacy is coming about by design and it is not indifferent. First given voice by Mikael Gorbachev in a 1988 speech, the concept of a New World Order was popularized by then-US President George Bush during the 1989 Gulf War. Since then, the meaning of a New

World Order has been appropriated most often by those who view it as consolidation of power among already-powerful business and governmental interests.

Some believe that businesses collude with other powerful entities to further consolidate and enhance their own positions (Barnett and Cavanagh, 1994; Klein, 2000; Korten, 1995). An example they might highlight is the role that global advertising agencies played in India's 2004 elections. This example shows interconnections, but some will wonder if these are helpful interconnections.

**Advertising/India**

Politics dominated India's television advertising in the 2004 elections. Ads prepared by global powerhouses Grey Global Group (GGG) and Publicis' Leo Burnett helped articulate opposing views of India, and for the first time political parties used ad campaigns to "brand" their activities. For example, GGG was commissioned by ruling party Bharatiya Janta to create an "India Shining" campaign that highlighted the government's role in recent economic advances. Leo Burnett worked for opposition party Indian National Congress to reach the millions of poor and rural Indians who had not benefitted from India's economic boom. These ad campaigns mark a sharp departure from Indian political campaigns of the past which were more grass roots in nature and they demonstrate how ideas from one nation move rapidly to others in an age of globalization.

Steingard and Fitzgibbons (1995) believe that management literature may be partly to blame for the New World Order backlash to globalization. They argue that academic publications promote myths like "Globalization leads to one healthy world culture," "Globalization brings prosperity to person and planet," or "Global markets spread naturally." They argue that globalization ideals represent primarily Westernized perspectives. They further assert that management educators have given little thought to the fact that not everyone wants to be a member of a global village. These authors argue that it is important for scholars and citizens to balance unbridled enthusiasm for capitalism with evidence of its results. They call for an open and egalitarian dialogue among those who promote globalization and those who believe it has negative consequences.

## Hyperglobalism and Business Activities

Managers who adopt a hyperglobalist view recognize that globalization is not business as usual. If globalization is perceived to be "survival of the fittest" on a global scale, managers are likely to scan the world for pragmatic opportunities that satisfy their interests. This might lead to dispassionate decisions when relocating jobs or shifting investments. Although managers may recognize that their actions create unpleasant consequences for others, they may believe that relentless competitive markets allow few alternatives.

## The Limits of Hyperglobalism

The rubric for globalization as a "New World Order" is very scary indeed. But it does not tell all we need to know about globalization or the role businesses can or should play in this process. Defining globalization as a New World Order may over generalize and cause people to overlook options for a more global world. For example, although large firms have the potential to abuse their economic power, not all do and some work to enhance worldwide opportunities. Ironically, the more extreme anti-globalization protestors share a belief with defenders of business that the relationship between business and society is a zero-sum game where one can gain only when the other loses. Ellis (2001) notes that this is a false dichotomy, arguing that the same forces that drive business globalization also can facilitate social progress. This suggests that businesses can play a role in creating a win/win world. Business roles in creating win/win options may not be explored or developed when businesses are viewed as a source of evil. Finally, when the global dialogue concentrates only on winners and losers, it reinforces win/lose approaches to resolving challenges.

### Three Faces of Global Culture

Peter Berger (1997) outlines three perspectives on the creation of a global culture:

*The Davos culture*: Until 2002 when they met in New York, a group of business and political leaders from advanced economies annually met in Davos, Switzerland at the World Economic Summit. Samuel Huntington coined the phrase "Davos culture" to suggest that global culture is a culture of the elite. Berger further describes this culture as a Western business elite and those who want to be like them. This cultural group aligns with the New World Order perspective on hyperglobalism because it focusses on those whose main interests are in globalizing economic development and business activities.

*The McWorld culture*: Benjamin Barber (1992) characterized cultural polarization as "Jihad vs. McWorld." In particular, he argued that Western culture and particularly US culture transmitted through various media are a form of cultural imperialism that has begun to dominant the world. The McWorld culture is populated by the Davos elite and companies that produce global brands representing Western culture. This perspective is analogous to the benign self-interest perspective on hyperglobalism.

*Faculty club international culture*: In contrast to the Davos culture that organizes to sell products abroad and the McWorld culture that supports it, the faculty club international culture promotes Western ideals such as feminism or environmentalism. According to Berger, this group is an elite of the intelligentsia that spreads Western ideals through existing systems such as education, think tanks, and mass media. Berger suggests that the tensions between the Davos culture and the faculty club international culture revolve around how progress can be achieved. That is, the Davos culture assumes economic development leads progress, but the faculty club culture assumes it follows human development such as human rights initiatives.

## The Transformational Thesis of Globalization

In contrast to the hyperglobalist thesis, a transformational thesis of globalization argues that the end-point of the globalization process is not yet decided, although most agree that global interconnections and interdependence will forge new links and dissolve some existing ones. Relationships among nations and people will be reconfigured and power relationships restructured (Held et al., 1999). The Unocal example below shows how transnational voluntary organizations work to hold businesses accountable for worldwide activities.

**Unocal**

In the late 1990s, the US prohibited investments in Burma, putting Unocal in a difficult spot as the biggest US investor there. The public accused Unocal of human rights violations there because they collaborate with the State Law and Order Restoration Council in Burma—the military junta that seized power in 1988. Public pressure mounted against this and other businesses to withdraw from Burma, but Unocal divorced itself from the nation to become more "stateless."

In 2002 a US court ruled that companies could be held liable in US courts for aiding and abetting human-rights violations committed outside the US. This opened the way for a lower court to hear a case against Unocal. The suit claimed that Myanmar government soldiers forced Burmese villagers to labor on a $1.2 billion natural-gas pipeline in which Unocal was an investor. Plaintiffs claim that Unocal knew about the abuses, but did nothing to stop them because the project benefitted from them. At least ten similar lawsuits are pending against US corporations. These and similar lawsuits demonstrate growing interest in the activities of companies everywhere. They also show that new mechanisms emerge to hold companies accountable for worldwide activities.

Source material: Sherri Prasso (1997, May 5) A company without a country? *Business Week*, p. 40.

According to Richard Falk, transnational voluntary organizations are "animated by environmental concerns, human rights, hostility to patriarchy, and a vision of human community based on the unity of diverse cultures …" ( 1993: 39). Working toward a vision of human community driven less by consumption than by caring, these organizations aim to enhance worldwide justice. The anti-personnel mines treaty, the Jubilee debt forgiveness movement, and alliances for sustainability and against poverty, illiteracy, terror, and HIV/AIDs are all examples of recent and global progress.

Although many proponents of transformation come from the voluntary sector, some businesses also reflect a transformationist view that works toward a better world. Ellis (2001) believes that the same forces that drive business globalization can also aid social progress. For example, global businesses often pay their workers more than the national average, spend more on R&D in countries where they invest than their domestic counterparts, and export more than domestic firms do (Foreign friends, 2000); the effects of business activities like these are greater in poorer economies than rich ones. Over

68 percent of large companies in Western Europe and 41 percent in the US report on "triple bottom line" objectives (profits, people, and the planet), showing that they integrate social and profit goals (Management barometer, 2003).

### Global Business as a Force for Good

Vernon Ellis believes that the global advance of business is inexorable, but that the consequences are not. Businesses have choices to make, and Ellis believes that businesses will make choices that benefit the global society as well as themselves. He argues that the interests of society and business are not played out in a "zero-sum" game where one can gain only at the expense of the other. Although Ellis acknowledges that businesses often resist social change, they have "always had a long-term commonality of interest with wider society … business has constantly evolved to meet society's goals and fuses them into its own interests" (2001: 16).

Source material: Ellis Vernon (2001) Can global business be a force for good? *Business Strategy Review*, 12 (2): 15–20.

Some businesses promote social justice as part of ordinary activities. For example, Benetton's advertisements highlight social issues like peace, caring, and hunger prevention. The Body Shop endorses Amnesty International and other social causes. DuPont is a champion for sustainable development. Businesses also contribute to justice via direct action in activities less traditional to the business sector. Some participate in cause-based business/nonprofit partnerships and others contribute to philanthropic ventures to satisfy social objectives. Numerous foundations operate to help businesses contribute to social goals. Other businesses engage in corporate philanthropy. An example of the latter is the Global Alliance for Vaccines and Immunization, a $1.01 billion aid project launched in the late 1990s with major funding from Microsoft Corporation and the Bill and Melinda Gates Foundation. The project immunizes for childhood diseases, concentrating on nations where many children do not live to the age of five.

### Merck's Charter

In 1950 chairman of Merck George W. Merck said "medicine is for the people. It is not for the profits. The profits follow." In 1987, this vision of business motivated Merck to donate a drug to treat river blindness to millions in sub-Saharan Africa. By 2002, Merck had donated $100 million in vaccines, worked to build better healthcare systems to treat AIDs in Africa, and was selling AIDs-treatment drugs at an 85 percent discount in Africa.

### Activities of Transformationalist Enterprises

The business that views globalization through a transformational filter also finds it important to generate wealth. It may do this (as the hyperglobalist does) by forging links with suppliers and customers. Unlike the hyperglobalist, the manager who adopts this perspective would consider the longer-run ramifications of these linkages. For example, a central concern for the board of British Petroleum is the economic and social health of places where BP does business. Wealth may be broadly defined to embrace both financial and social goals, for example to enhance quality of life and financial wealth. Further, this firm may alter its activities to ensure that human and other species survive. Some may operate from a double or triple bottom-line perspective to balance interests of people, profit, and the planet. Others may engage in single issues that improve local communities.

Reconfiguration of existing links sometimes comes about through interconnections among businesses, governments, and members of civil society. Voluntary and governmental organizations may take on business roles just as businesses may play social as well as profit-generating roles. In these ways they transform their own organizations. Thus the transformationist view of globalization suggests that businesses and voluntary organizations do not divide neatly into opposing camps for good and evil, but that they cross boundaries and borders to interconnect their activities and initiatives. This point is further explored in Chapter 2.

### Limitations of the Transformationist Perspective

Held et al. (1999) assert that transformation is a process that will yield different power hierarchies and shift authority systems, but no one can say what the results will be. Changes thus far are both positive and negative. Interconnections between businesses and other organizations and interconnections among people around the world are making it easier to identify and address social injustice. But this process is not pretty. Some of what we see is disturbing, and some events that occur are destructive. However, seeing world realities helps all of us to recognize that common concerns cannot be addressed unless we operate as part of one world. The better world envisioned is one based on partnerships that realize gains made when civil society, businesses, and governments worldwide collaborate.

## PERSPECTIVES ON GLOBALIZATION INFORM ACTION

Having suggested that business leaders operationalize different views of globalization, it is important to note advantages as well as disadvantages associated with each. For example, if globalization is not internationalization, then firms relying exclusively on traditions of practice and theory may not be well served by them. At worst, this approach can fragment rather than strengthen boundary-spanning activities. If globalization is something new, then both transformations and hyperglobalists must find new ways to operate. There are no rulebooks to guide them through the globalization process. This means that many will experiment, and it probably means that mistakes will be made. For example, donations of second-hand clothing to Zambia have all but destroyed textile production there. This suggests that all organizations should consider the second- and third-order global consequences of their activities.

There is no definitive answer to the question: what is globalization? But we do see that many organizations in addition to businesses shape the global agenda. Although many businesses are shaped by globalization, others play an active role in shaping the agenda for defining globalization and its consequences. Accordingly, it is important for business leaders to make explicit and clear choices when interpreting what growing worldwide interconnections mean for their organizations.

Finally, in this more global world of interrelatedness and interdependence, it is important to recognize that organizational activities result from human decisions. It is people who generate positive or negative outcomes. As individuals, as organizational participants, and as citizens of nations and of an interconnected world, we need not become victims of globalization. At the same time, developing the potential and avoiding the threats of globalization demands attention and action. A compelling reason to learn about and involve ourselves in globalization is that global decisions made without participation may lead to outcomes that serve few interests—outcomes that could realize the worst qualities of the feared New World Order.

## THE GLOBAL CHALLENGE FOR MANAGING CAREERS AND ORGANIZATIONS

In summary, growing interconnections brought about by the globalization process require that both managers and organizations expand on traditional repertoires of roles. Subsequent chapters examine how this can occur, and so the examples below are limited in scope.

As national economies, political systems, cultures, technologies, resources, and industries increasingly converge—perhaps to meld, perhaps to take shape in new forms—global management skills and abilities become more important to all organizations. These skills will be diverse. Traditional knowledge and skills remain important. For example, some managerial competencies such as leading, planning, organizing, and controlling will persist. Yet global managers can better respond to global demands by learning continuously, managing diversity, and developing a global mindset. This encourages managers to think "outside the box" of tradition. For the individual manager, the task is to prepare for projects, jobs, and careers in a future where direction is unclear. This requires that many learn to live with ambiguity.

For organizational leaders as well, the challenge is to manage tradition and change. Global firms may mix and match traditional principles with newly developed ones that borrow best practices worldwide. Many Western firms once articulated their strategy as profit-seeking alone, and established stand-alone hierarchical structures. Few in the global sphere are able to pursue profits alone, and many now experiment with flatter organizational structures. Most link with others to accomplish their goals. Western traditions of scientific management, Japanese traditions of lifetime employment, Chinese traditions of family ownership, and many other traditions are under review. Under similar review are high wage rates and quality of life issues in German firms, ethics of work in Eastern Europe and other former Communist countries, and the relationship between global business and global society. Proliferation of global options creates new challenges for balancing organizational structures, people, and processes. Ways that global managers achieve balance are explored in Chapter 2.

## CHAPTER SUMMARY

Globalization is a process that is increasing worldwide interconnections in virtually every sphere of activity.

The four characteristics of globalization are increasing worldwide interconnections, rapid, discontinuous change, an increased number and diversity of participants in business and other activities, and growing complexity.

Distinctions between international and global business can be made based on the relative emphasis on nations, and management skills and abilities needed for each.

A global world requires a more global mindset. Developing this mindset requires changes from everyone, but the specific changes depend on one's existing mindset.

Three perspectives on globalization are offered: the skeptical view, the hyperglobalist view, and the transformationist view. Each provides a different explanation of globalization, and suggests different activities for managers subscribing to the view.

Organizational activities result from human decisions. As individuals, as organizational participants, and as citizens of nations and of an interconnected world, we need not create nor ourselves become victims of globalization. But this takes knowledge, thought, and action. It also requires that we look beyond first-order effects to understand how our actions affect others worldwide.

## REVIEW AND DISCUSSION QUESTIONS

1. Evaluate yourself on the six managerial skills required of a global manager. Rate your progress on each and set goals for how you can improve on each.
2. Three perspectives on globalization were presented: it's nothing new (the skeptical thesis), it's hyperglobalism, it's transformational. Select the perspective that is closest to your own beliefs and provide arguments to support your point of view.
3. What does your answer to #1 suggest about how you should prepare yourself for global business? What classes should you take? What academic interests should be your specialty? What skills will be most important to you?

**4** Find a recent headline from a newspaper or magazine that reports on an event that occurred somewhere in the world. A war? An economic recession? Discovery of a new drug? A natural disaster? Examples: North Korea's withdrawal from the Treaty on the Nonproliferation of Nuclear Weapons; the Iraqi war; inter-tribal warfare in African nations; terrorist bombings; organized crime in the illicit drug trade. Trace how this event or activity can go global. How might this event affect your daily life? How might it affect your job opportunities?

## NOTE

1 In the event that a ship sinks, its emergency beacon floats free. The beacon sends a signal to a Russian satellite that is beamed down to a Moscow technician who records and sends the location and the ship's identification number to rescue ships.

# Chapter 2
# A SYSTEMS VIEW OF GLOBAL MANAGEMENT

## NAPSTER FORGES GLOBAL INTERCONNECTIONS

Organizations and individuals face global shifts in six external environments: 1) businesses and industries; 2) the natural environment; 3) economic; 4) political; 5) technology, particularly information technologies; and 6) culture. Although each of these six external environments is distinctive, they also interact with one another, and are additionally shaped by mediating organizations and even individual activities. This point is illustrated by a simple change in music *technology* that began with Shawn Fanning's Napster.

Having provided consumers with a way to share files and download music from the Internet, Napster altered *cultural* habits for music acquisition worldwide. At the same time, another *cultural shift* occurred when the teen-pop fad faded but no new music fad replaced it. *Businesses* in the music *industry* witnessed an almost immediate downturn in sales of tapes and CDs: billions of dollars reported for the global *economy* were no longer counted because consumers had no costs. This downturn together with illegal copying of CDs caused many music companies to drop recording contracts for local artists, finding it cheaper to promote established international artists than to develop local ones. Hardest hit were recording artists in nations where CD piracy is particularly high. At the time 30 percent of music CDs in Spain and 60 percent of music CDs in Thailand were pirated. Thus, absence of *political/legal* sanctions against both CD piracy and file sharing over the Internet affected music companies.

Between 1999 and 2003 the record industry witnessed a 14 percent drop in revenue. This impacted not only on record producers but also on performing artists. Industry businesses created different strategies in response to file sharing services. For example, Bertelsmann loaned Napster more than $100 million to develop it as a legitimate business model complementary to its own recording unit BMG Entertainment. New organizations such as KaZaA—incorporated in Vanuatu—and Morpheus entered the industry. These and other activities further altered recording-industry dynamics. Mediating organizations such as the Recording Industry Association of America filed lawsuits against Napster, putting a *political/legal* spin on music downloading. Both Universal Music Group and EMI Group—competitors to BMG—filed direct suits against Bertelsmann. Others with mediating interests include recording artists themselves as well as buyers and suppliers to the industry.

This brief example illustrates how a global change in an information technology was followed by global shifts in the industry, in politics, in culture, and in economics. Although it might seem that the natural environment plays no role in this event, consider the packaging, plastic, and other materials that are ordinarily required to sell a CD or tape. The point is, each external environment is affected by a global change in any other but the felt effect may not be immediately obvious.

But this story continues. Napster liquidated assets after losing a battle over copyrights in 2001. Roxio bought Napter's name and remaining assets in 2002, then relaunched it as a subscription and pay-per-song service. Meanwhile Apple Computer introduced its iTunes store, charging just about $1 dollar per downloaded song. Musicmatch Inc., RealNetworks Inc's Rhapsody, and bigger competitors such as Amazon.com, Sony, and Wal-Mart followed this lead. Sony and Bertelsmann announced merger plans for their music division, ▶

and peer-to-peer computing developed as a viable option. These new competitive configurations and technologies further altered the global landscape for music and other industries. But the beat continued: RIAA filed suits against individuals backed by angry claims that music downloaders are thieves (Gomes, 2003). Pepsi featured these individuals in a promotional campaign for free (and legal) downloads, and smaller businesses emerged to handle legal issues and burn CDs for customers. The Dutch supreme court ruled that KaZaA's makers cannot be held liable for copyright infringement due to file sharing, but record-industry investigators raided firm offices. What's next? Stay tuned.

Source material: Peter Burrows (2003, Oct. 20) Napster lives again—Sort of. *Business Week*, pp. 66, 68; Charles Goldsmith and Keith Johnson (2002, June 4) Music piracy forces industry to reduce signing new artists. *The Wall Street Journal*, p. B10; Lee Gomes (2003, Sept. 15). RIAA takes off gloves in mounting its fight against music thieves. *The Wall Street Journal* (Eastern Edition), p. B1; Ethan Smith (2003, Oct. 16) Universal Music to cut work force as industry sags. *The Wall Street Journal*, pp. A3, A8.

## CHAPTER OVERVIEW

A review of contemporary business history provides the context for understanding how organizations interconnect with global environments. Systems and chaos theories are introduced to provide a framework for examining organizations in global environments. Six sources of globalization are described and their interactions in a global system are outlined. Attention then turns to the organization to show how managers adapt people, processes and structures for a more global world. Finally, the chapter examines organizational interconnections through which global businesses manage external adaptation and internal integration.

## WITH HISTORY AS THE GUIDE: SETTING THE CONTEXT

Writing in 1981, Richard Robinson classified post-World War II business into four distinct periods of international business expansion. During each time period, business leaders focused their attention in different ways, and different theories emerged to set the stage for global management.

### The Postwar Decade (1945–1955): Reasons for Efficiency in the Postwar Decade

The end of World War II brought an urgent worldwide need for materials and services. Firms best able to respond were located principally in the US and a few other industrialized economies, such as Switzerland. Nestlé is an example; it had relocated to the US during the war years from which it developed a significant Latin American presence. Many of these businesses relied on principles of scientific management to meet growing worldwide demand.

## Scientific Management

Frederick Taylor's principles of "scientific management" argued for "one best way" to accomplish work. Writing at the same time as Taylor, Henri Fayol also sought to uncover universal business truths based on a "science" of management. Fayol is credited with introducing the five managerial universals of planning, organizing, coordinating, controlling, and commanding, and he outlined how each could best be used. For example, command is facilitated by a clear chain of command through which employees answer to a single superior.

Max Weber's ideal for a bureaucratic organization complemented and expanded on the developing "science" of work management by showing how jobs could be organized into a cohesive organizational whole. This bureaucratic ideal is the pyramid-shaped hierarchy many use today. The pyramid shape is supported by clear divisions of labor, delegated authority and control, and sustained by written rules and regulations.

**Features of Bureaucracy and Scientific Management as "One Best Way"**

1. Division of labor or specialization occurs—people are trained as experts in narrow areas
2. Tasks are standardized to perform the same job in exactly the same way
3. Hierarchy of authority is established
4. Unity of command is established so no employee answers to more than one boss
5. Span of control is limited to no more than seven for any one supervisor
6. Line and staff responsibilities are divided—line makes decisions, staff advises
7. Decentralization locates authority at the lowest level possible without losing control over critical issues
8. Structure is established according to purpose, function, geography, or by customer served to organize work in logical groupings
9. Activities of the manager include planning, organizing, leading, coordinating, controlling

Economic success and both public and academic reinforcement doubtless confirmed an impression that bureaucratic management practices in US firms were superior. As Dunning puts it: "The argument in the 1950s and early 1960s seemed to run something like this. US industry in the US is efficient; its technology, management and marketing skills are the best in the world. Therefore when US industry goes abroad, US products, skills and production methods should follow it" (1993: 9–10).

Cross-border business activities in this time period relied primarily on trade in tangible goods, and managers were encouraged to concentrate on efficient transfers of resources from home to host countries. Senior managers abroad usually were expatriates from the home country. Many businesses were described as ethnocentric (Heenan and Perlmutter, 1979) because they put home-country interests above those of host countries. Finally, with respect to the external environment, businesses in the postwar decade tended to see boundaries between the organization and its environment (Wright and Ricks, 1994), and nations were viewed primarily as closed systems defined by clear borders.

## The Growth Years (1955–1970)

World manufacturing and trade increased after the mid-1950s. Businesses with a presence in multiple countries came to be called multinational enterprises (MNEs) or multinational corporations (MNCs). For some, expansion produced revenues larger than the entire gross domestic product (GDP) of smaller nations. The growing economic clout of businesses often was equated with real or perceived political clout. When foreign businesses used this power, they were viewed as extensions of national governments. Although international business activities in the growth years still came from industrialized nations, growing consumer demand attracted firms from many more nations.

### International Expansion as a Rational Economic Decision

Early theories of international business growth helped shift emphasis from nations (how businesses help nations develop) to organizations (how businesses achieve competitive advantage to grow for their own benefit). Writing in the 1960s, Raymond Vernon (1966) argued that limits on domestic growth led to four expansion stages for US firms. The theory linked foreign direct investment decisions to economic rationality over a life cycle:

1. At the product's introductory stage when sales growth is uncertain and production runs limited, the firm uses excess productive capacity domestically to produce and export to similar industrialized economies
2. At the product's growth stage, firms will increase exports to developing economies to further expand their markets and ease growing competition in the domestic market
3. As the product matures and competition increases, costs become more important and the firm may then use improved process technologies to produce more abroad and export less; manufacturing abroad often occurs first in other industrialized countries for export to developing economies
4. At the decline phase of the product life cycle, almost all production moves to lesser developed economies for worldwide distribution

Expansion in many firms conformed to a life-cycle process, but others did not. This led to an eclectic theory for foreign direct investment (Dunning, 1988). Dunning argued that location-specific advantages combine with the business's own special abilities to shape FDI decisions. An example is Coors Brewery which is unlikely to expand to locations where there is no clean mountain water.

## Time of Trouble (1970s)

Many European and Japanese firms expanded internationally in the 1960s and beyond. Business-to-business competition increased, showing that national governments could not always protect businesses from competition or external pressures such as nationalization or oil shocks. Robinson (1981) described the 1970s as watershed years when developing economies began to reject the dominant role that large multinational businesses had played. Some developing economies expelled businesses; others nationalized them under government control.

The interface between an organization and its environment (Emery and Trist, 1965) took on a special urgency in this "time of trouble." The developing and direct link between organizations and their international environments led to new complexity. Organizations viewed international expansion in rational economic terms, but also began to view it as a learning process for future expansion (Beamish et al., 1991).

The greatest practical concern for firms operating in the increasingly complex 1970s was integration of strategy, structure, and systems (Bartlett and Ghoshal, 1995). Since organizations differ, integration also could come about in different ways. Thus, there was no longer a single "best way" for conducting business. Researchers began to explore growing complexities worldwide. For example, increased political emphasis and a more competitive environment for international business encouraged studies of political risk and competitive advantages for firms and industries.

## Internationalization Theory

Working at the University of Uppsala, researchers Jan Johanson, Jan-Erik Vahlne, and Finn Wiedersheim-Paul (1975, 1977) developed a theory of internationalization that expanded on economic rationality. Specifically, the Uppsala model argues that firms internationalize as they gain experience and knowledge of foreign markets. Because direct, hands-on learning is usually acquired slowly, internationalization can be viewed as an incremental process that occurs in four distinct stages. Each stage of this internationalization process is based on knowledge gained in a previous stage:

- In the first stage where firms are not engaged in export activities there is little learning about international markets.
- In the second stage, independent representatives are hired to facilitate exporting. Interactions with this representative help the exporting firm learn about the foreign market.
- An overseas sales subsidiary is established when the firm has sufficient learning.
- Following additional learning, the company can establish a foreign production facility.

The Uppsala model, Vernon's model, and Dunning's theory all suggest that internationalization follows a series of defined steps. But these theories differ in important ways. Whereas economic models explain FDI in economic terms, the eclectic model suggested and the Uppsala model showed that managerial behaviors and learning are different yet important inputs for internationalization. Thus we see that as business diversity increased, theorists began to examine new variables to better explain behaviors.

## The New International Order (1980 and Beyond)

Research in the 1980s pointed out that some firms did not follow expected internationalization stages. For example, some skipped the exporting phase to enter markets with foreign licensing or manufacturing (Carstairs and Welch, 1982/1983; Reid, 1984; Root, 1987). Other research showed that firms from different countries could follow different paths to internationalization (see Knight and Cavusgil, 1996 for a review of these studies). Reid (1983) noted that stage models of internationalization also paid insufficient attention to factors like the industry, the company, or people involved in the company. These findings called for broader-based theories better able to explain variations in how businesses expand internationally.

Expanding complexity also focused attention on culture and national interests. This was followed by studies of cultural traits (Hofstede, 1980, 1983). Other theories combined ideas from different fields to create interdisciplinary research. An example of the latter is network theory.

### Network Theory

Earlier we saw that FDI and product life-cycle theories view economic rationality as a key determinant for international expansion. By contrast, internationalization according to the Uppsala theory focuses on learning as a key determinant. Network theory attempts to wed these two theories, arguing that both economic rationality and learning influence firm decisions (Johanson and Mattsson, 1988, 1992; Sharma, 1992). The resulting decision network for organizations involves relationships such as interactions with customers, suppliers, and competitors; networks can involve family and friends. This theory therefore suggests that one can better understand decisions to go international by considering how economic variables and social relationships jointly influence firm activities.

### Internationalization of Small and Medium-sized Enterprises (SMEs)

How do theories of international expansion apply to small and medium-sized firms? Nicole Coviello and Andrew McAuley (1999) explored this question by looking at sixteen empirical studies of small international businesses. They concluded that using more than one theoretical framework better captures the internationalization concept. They also suggest that internationalization and life-cycle theories might not apply to small firms.

#### SMEs Defined

Small and medium-sized enterprises are variously defined. The OECD defines them as independent firms that are not subsidiaries of other companies. The upward limit on size often is 250 employees, but in the US SMEs can employ as many as 500 employees. Small firms are categorized as those that employ fewer than 50 people. Financial assets also are used to define SMEs. For example, in the European Union, SMEs must have annual revenues of €40 million or less and balance-sheet valuations of less than €27 million.

Source material: Small and medium-sized enterprises: Local strength, global reach. (2000, June) OECD Policy Brief. http://www1.oecd.org/publications/pol_brief/2000/2000_02.pdf.

Small firms may rely more on networks to go international (Coviello and Munro, 1995; Holmlund and Kock, 1998). Specifically, managing business and social network relationships can increase rates of international development among smaller firms. This view is supported by much of the SME research. Zafarullah and others (1998) concluded that the network perspective is perhaps most useful in understanding SME internationalization. More recently, Jones (2001) studied small, high-technology firms to note that for many of them international involvement was importing not exporting. She further noted that first steps towards internationalization among her sample of SMEs included activities other than trade. This evidence shows why tradition alone may be insufficient to analyze the internationalization process.

**Pencils Go Global**

Dixon Ticonderoga Co. is a relatively small company that makes pencils—not the fancy retractable ones but the plain wood-encased graphite grasped by many primary-school students. Dixon buys erasers from Korea, some of its wood from Indonesia and wooden parts from near Beijing, and it is shifting more operations to Mexico. Once protected by US tariffs, Dixon faces stiff world competition especially from Chinese pencil makers who can make cheaper and better pencils. This example illustrates how smaller firms are affected by and engage in global activities.

## Growing Emphasis on Processes and People

By the 1990s, the international era had reached a more global stage that demanded integration, particularly with suppliers worldwide. This shift in behavior led to shifts in managerial emphasis, and more attention to integrative processes and people to manage them. Bartlett and Ghoshal (1989) indicate that the strategy/structure/systems concerns of the 1970s and 1980s gave way to *how* links within and between firms and their constituents are managed. Some of these processes were borrowed from other nations. For example, because Japanese firms had gained a manufacturing advantage in the 1970s with “lean” production techniques, other firms began to adopt techniques like “just in time” inventory management. Other techniques ensured high-quality consistency or low inventories of finished goods (Schonberger, 1996). In borrowing these techniques from the Japanese, businesses worldwide began to learn from each other.

Ways to manage the global firm today vary widely, but a common theme is that they take their strength not only from structures but from concentrating also on people and processes. Thus, there is a need to integrate among these. Second, business success depends on managing trade-offs that are difficult to balance in a world that does not think or act as one. Additionally, organizational adjustments intended to achieve flexible efficiencies for the dynamic and competitive global business world add to rather than displace other concerns like efficiency.

According to Jeffrey Garten (2003), businesses face a new geopolitical reality and a new managerial era due to economic slowdowns, increased terrorism, and corporate governance scrutiny. Companies that wish to create lasting value will need to:

- Focus anew on the fundamentals, but put less emphasis on speed and untested theories and more emphasis on people and systems.
- Rethink their role in society because society will value companies that have a broader focus on more shareholders.
- Embrace the new ethos for good corporate governance but sustain the courage to take educated investment risks.
- Redefine the character of leadership.

Peter Drucker (1999) notes that when business conditions change, business assumptions also should change. Table 2.1 outlines underlying business assumptions in the past and those that may be more relevant today.

**Table 2.1** *Postwar and new assumptions for management practice*

| Assumptions Underlying Postwar Management Practices | Assumptions Underlying Management Practice Today |
|---|---|
| 1 Technologies, markets and end-users are given and abundant | 1 There are limitations to technologies, markets, and end-users; organizations are driven by customer values |
| 2 Management's scope is legally defined | 2 Managers need to focus on the entire management process at every phase of the economic chain |
| 3 Management is internally focused | 3 Management exists to produce results; managers answer to others outside the organization |
| 4 The economy is defined by national boundaries | 4 National boundaries largely function as restraints on a firm |

## SOURCES OF GLOBALIZATION: SIX INTERCONNECTING SPHERES

As already noted, there are many definitions of globalization. Differing definitions of globalization give rise to different hypotheses about causes. Some believe globalization can be traced to a single or finite set of sources. For example, some think technology is the driving force behind globalization (The case for globalisation, 2000; Friedman, 1999; Naisbitt, 1994; Ostry and Nelson, 1995). Others believe globalization is powered by economics (Govindarajan and Gupta, 2000; Ohmae, 1995; van Bergeijk and Mensink, 1997), business (Bannock et al., 1998; O'Neill, 1997; Reich, 1991b), cultural factors (Barber, 1992; Huntington, 1993), or communications and transportation innovations (Can there be, 2000; Mandel and Ferleger, 2000).

This "primary driver" approach to thinking about globalization first emerged from the popular press, but scholars use it too. It is a flawed approach because it encourages people to think about globalization as "prefiguring a singular condition or end-state" (Held et al., 1999: 11). Viewing globalization as static or as caused by a single force is not consistent with definitions and characteristics of globalization presented in Chapter 1 and reinforced throughout this book.

Recent scholarship demonstrates a growing tendency to examine interconnections. Some combine two or more global "drivers" when analyzing change, particularly technological shifts and business shifts (Mandel and Ferleger, 2000). Others note there are many more than two or three drivers for globalization and it is important also to look at their interrelationships (Clough, 1996; Dicken, 1998; Lodge, 1995). For example, Manuel Castells (1998) notes that three independent processes occurred to stimulate globalization: the information technology revolution, the economic crisis that brought capitalism and nation-states into conflict, and worldwide social and cultural movements such as human rights, feminism, and environmentalism. He argues that interactions among these processes create a network society.

## Global Environments Examined

Businesses and other organizations operate in an increasingly interconnected world. These interconnections occur at three levels shown in Figure 2.1. At the center of this figure is the organization whose leaders integrate people, processes, and structures (PPS) to shape outcomes in a global world.

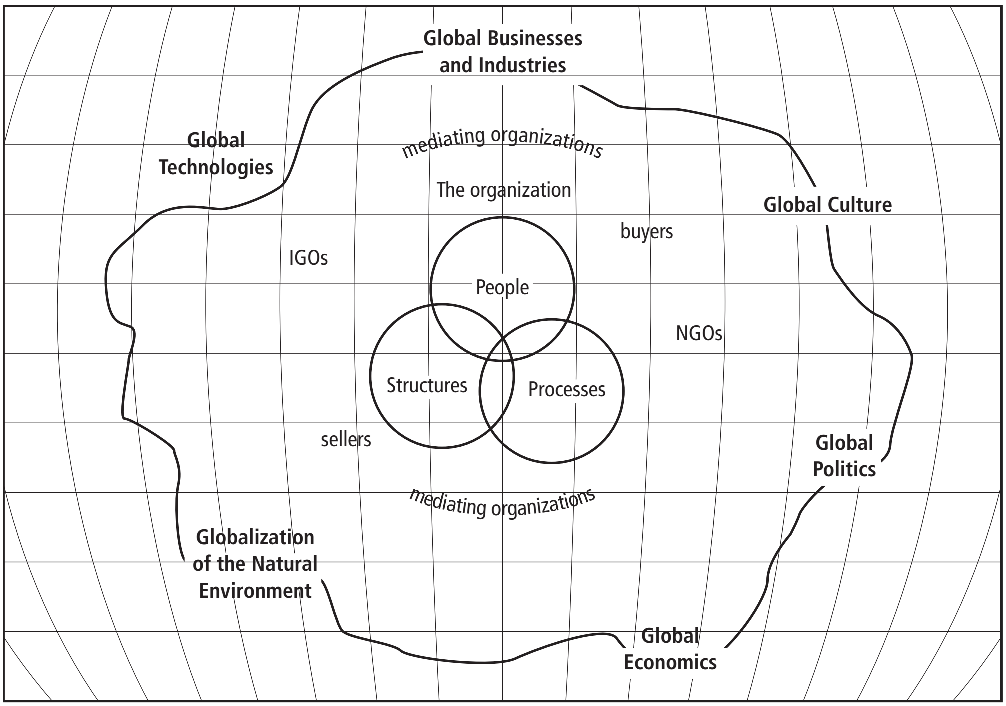


**Figure 2.1** *Global interconnections*

Outcomes also depend on activities that occur outside the firm. As shown in Figure 2.1, these activities are organized around six major global environments: 1) businesses and industries; 2) the natural environment; 3) the economy; 4) political/legal activities; 5) technology, particularly information technologies; and 6) culture.

The third level of interconnection occurs because others, such as suppliers, nongovernmental organizations, competitors and unions, mediate the interface between one, some, or all of the six external environments and the focal firm. Figure 2.1 examines characteristics of each of these three levels of interconnections, beginning with the six external environments.

### Interconnections of Global Environments

For the sake of simplicity, Figure 2.1 shows the six external environments as discrete and separate entities. However, an event occurring in any one of the six usually interacts with events in the other five external environments. Hence a change in one environment is often followed by, causes, or is concurrent with, changes in others. These shifts in global environments as well as interactions among them affect organizations, but each organization can be affected in a different way. This occurs for two reasons: 1) mediating organizations stand between an organization and its external environment and they shape available organizational options; and 2) organizational leaders pursue different approaches to manage global shifts. The case example introducing this chapter illustrates the latter point: the technological shift that opened a market for Internet music exchange led Bertelsmann to collaborate with Napster even as Apple introduced its own iTunes service.

Mediating organizations and individuals also can reshape the meaning of global events for a particular business. For example, when customers began to download music rather than purchase CDs, this motivated record companies to alter their activities. An example of mediation occurred when police raided KaZaA offices.

Locating organizations within the circle represented by global environments and mediating organizations represents a systems view of organizations in a global world. "Systems theories" describe relationships between an organization and the system in which it operates. Many different theories of systems have emerged, but at the core of each is a common belief that organizations are part of larger systems. A look at several systems theories below shows that each has different implications for global management.

## Systems Theories of Organizations and Environments

Almost all contemporary strategic management theorists examine the relationship between an organization and its environment. One method for analyzing this relationship is called a *SWOT analysis*. Using the SWOT technique, a manager analyzes the opportunities (O) and threats (T) posed by the external environment and compares them to organizational strengths (S) and weaknesses (W). A general SWOT model usually provides variations on the same set of external environments described above, for example economy, politics, and culture. Another approach developed by industrial organization theorists identifies the industry environment as the most important external environment for every firm (Porter, 1980).

*Biological systems theories* look at relationships between groups of organizations, applying concepts like Darwin's survival of the fittest. When biological concepts are applied to organizations, explanations for organizational growth and demise are explained in terms of natural selection in markets. That is, one organization survives when the market values its attributes. Another expires because its attributes fail to meet market needs.

Although the systems theories above differ from one another, they share several underlying assumptions for how organizations and external environments interact. First, the external environment is believed to exert considerable influence on the organization. Second, these theories assume that it is possible for managers to assess external environments and respond with internal adaptations. Third, managers are believed to be rational decision-makers. For example, if an industry analysis reveals few opportunities for a particular business, then managers would be expected to exit the industry. This occurred at ICI when top managers sold low-margin commodity businesses.

These underlying assumptions support a fairly deterministic view of how organizations operate within systems. They argue for a cause–effect relationship between environmental assessment and organizational activities. Application of these deterministic theories to global environments motivates managers to monitor global activities as well as international ones to conduct a SWOT or industry analysis. For example, an industry analysis would look at worldwide industry competitors in addition to domestic and international ones.

Unlike more deterministic rational systems theory and biological systems theories, *chaos theories* posit that some phenomena involve so many factors that they are inherently unpredictable. Although some external shifts could be orderly, others are chaotic or random. Further, the patterns that emerge from one series of events are not necessarily repeated. Thus, a chaotic system creates complex and unpredictable managerial challenges.

**Domino Effects and Butterfly Effects**

Another way to compare rational and chaotic systems is to think of them as having domino or butterfly effects. In rational systems, dominoes are lined up one next to another. The first domino to fall leans into the next and the next until all have fallen one by one. The dependency and relationships among the dominoes is clear. The butterfly effect is the propensity of a system to be sensitive to initial conditions in an iterative pattern. Such systems over time become unpredictable. This approach is called the butterfly effect because in a chaotic system a butterfly flapping its wings in one area of the world can cause a tornado or similar weather event to occur elsewhere in the world.

When chaos is part of a system, managers cannot rely on logic alone to assess the boundaries of the system or outcomes from particular global shifts because both are quite difficult to assess or predict. Managers operating in chaos might be expected to use rationality some of the time, but also would be encouraged to plan for and manage unpredictability and paradox. For example, they might be encouraged to develop intuitive reasoning skills. Additionally, managers in chaotic systems need to be flexible because systems tend to alter in fairly unpredictable ways.

The systems perspective adopted for this text combines elements of determinism, chaos, and biology. What is determinable is that globalization is occurring in each of the six global environments. The source of chaos in this system is three-fold: some events are not predictable, others are reshaped by interactions with each other, and mediating organizations shape the meaning and importance of activities that do occur. Thus mediating organizations also contribute to activities that cause businesses to thrive, survive, languish, or die.

The following sections introduce the six global environments of greatest concern to global managers. Examples that follow show how interconnections among these spheres affect business practices. This systematic view helps managers see the "big picture" needed to adopt a global mindset and anticipate some outcomes. The chapter later looks at internal features of organizations and the expanding roles of mediating organizations.

# KEY ASPECTS OF THE SIX EXTERNAL ENVIRONMENTS

## Globalization of the Natural Environment

Few need to be convinced that sustaining the natural environment is important to everyone's future. Examinations of this environment include a look at the "global commons" of air, water, and space. Most of these resources are beyond the jurisdiction of nations and intergovernmental agreements. Yet individual and organizational consumption affects everyone worldwide. Raw materials of every type also are important parts of what can be thought of as the earth's "natural" environment. Nations may have greater and lesser deposits of raw materials such as wood, rubber, minerals, ores, or oil, but as one world there is a finite amount of these resources available. Demand for natural resources varies. For example, 20 percent of costs for the commercial airline industry come from fuel. Thus oil price fluctuations have a significant impact on this industry.

Three other aspects of the natural environment demonstrate the global significance of the natural environment. First, it is increasingly evident that species biodiversity so important to all life is diminishing. Second, globalization of diseases such as AIDs, malaria, and hepatitis challenge existing resources and opportunities. Finally, natural and human disasters can also have a global impact and demonstrate global interconnections.

Each of these five elements of the natural environment connects to every other; those interconnections are explored in much greater depth in Chapter 6. Additionally, each and all of these elements of the global natural environment interconnect with business, with the economy, and with other global environments. The following example illustrates these interconnections.

**Natural Disasters and Business**

Tsunamis swept the Indian Ocean in December of 2004, hitting eleven nations and carrying hundreds of thousands out to sea. The aftermath of this tragic event demonstrates all too clearly how shifts in the natural environment interconnect the world. Satellite transmissions of surging water transfixed the world. Nongovernmental organizations, such as Mercy Corps and Doctors Without Borders, quickly dispatched help; IGOs, such as the UN, sent fact-finders to devise responses; and businesses sent supplies of food, medicine, and water. National governments in water-swept nations quickly mobilized; nations and individuals donated funds; and many embassies had the sad task of searching for lost tourists. A lingering image is of an Indonesian tribesman, arrow aimed at a helicopter to prevent a landing that would connect him to the world.

## Globalization of Political/Legal Environments

The world today is organized principally around nation-states that operate within different political infrastructures. At the heart of virtually every political system is the need to balance between individual (self) and collective (national) interests. The shift from command to market principles in many nations and the propensity of nations to privatize state-owned enterprises indicates that many governments believe free markets can help them achieve the individual/collective balance. But this is difficult to do on a worldwide scale because every government has created different rules, standards, and regulations to address issues like taxes, tariffs, and business activities.

On a worldwide scale, creating a common and global "good" society involves many more than governmental actors in the political/legal environment. Intergovernmental organizations, nongovernmental organizations, businesses, and members of global gangs, pirates, and terrorist organizations also shape global political/legal environments. At the periphery are rebel groups vying for control within nations and they too affect the global political/legal environment. These points are examined in greater detail in Chapter 10.

## Globalization of Culture

A principal challenge of globalization today focuses on the tension between the cultures of nation-states and an emerging global culture. Because culture is known to shape meaning and create values as well as lead to common habits, many worry that cultural globalization will result in a homogeneous world culture that drives out individual variation. Products ranging from cola beverages to denim blue jeans, autos, and televisions are consumed throughout the world. English increasingly is a global language for business; some food habits are converging; travel is global; artifacts of popular culture from television and film are viewed worldwide; and business activities increasingly are viewed as modes of distributing information and other resources around the world. For example, the Doha-based news agency Al-Jazeera has increased informational access for the world to the entire Middle East.