

PART ONE

BACKGROUND FOR INTERNATIONAL BUSINESS

Chapter 1

Globalization and International Business

OBJECTIVES

- 1-1 Explain why and how the study of international business (IB) is important
- 1-2 Understand the relationship between globalization and IB
- 1-3 Grasp the forces driving globalization and IB
- 1-4 Discuss the major criticisms of globalization
- 1-5 Assess the major reasons companies seek to create value by engaging in IB
- 1-6 Define and illustrate the different operating modes for companies to accomplish their international objectives
- 1-7 Recognize why national differences in companies' external environments affect how they may best improve their IB performance

CHAPTER OVERVIEW

Globalization has become a major socioeconomic force and topic of debate in the twenty-first century. Chapter One examines the forces that are driving this phenomenon, as well as the often-passionate criticisms of the process. The chapter reviews the objectives that firms pursue when they engage in international business activities and describes the various modes of entry that may be used. It also notes the terminology that has come into existence as new types of organizations have evolved. The chapter concludes with a discussion of the conditions in a company's external environment that may affect its international operations.

CHAPTER OUTLINE

OPENING CASE: THE GLOBALIZED BUSINESS OF SPORTS [see Map 1.1]

Although not everyone agrees that the unbridled globalization of professional sports is all for the good, the process and possibilities are definitely far reaching. Today's satellite television broadcasts enable fans to watch top players and teams in nearly any sport from almost anywhere on earth. Professional teams scour the world to find and develop the most talented athletes, and players forsake home country allegiances in their pursuit of the world's highest salaries. Further, the more people that tournaments can attract through attendance and television, the more money that sponsors and advertisers are willing to pay—and the greater the likelihood that those sponsors and advertisers will have business operations that span the globe. In addition, sports and nonsports companies alike pay famous athletes and teams generous sums to endorse their products. Successful teams have opened shops both domestically and internationally to sell

souvenirs bearing their logos and may make more money on merchandise than from TV rights and sponsorships combined. Most recently, as teams and leagues have begun to seek income opportunities outside their home countries, foreign investors have acquired a U.S. baseball team; another group of foreign investors acquired controlling interest in a British soccer (football) team, and the National Football League (NFL) of the United States underwrites flag football games in Chinese schools and is playing some regular season NFL games in Europe. Map 1.1 outlines national sports in a variety of countries and can be used to discuss how culture impacts globalization.

Questions

1-1 Professional athlete A is a star. Professional athlete B is an average player. How has the globalization of professional sports affected each of these both positively and negatively?

Being a star, professional athlete A can become a target for endorsement deals from local and international companies and organizations that would use such an athlete in advertising. They also get substantial financial contracts (salaries and bonuses) from their clubs. The endorsements and salary deals get more lucrative if professional athlete A reaches strong positive visibility in major sport events or if he/she develops a global brand such as Cristiano Ronaldo. Advertisers will pay them considerably for endorsing a product or service. However, the same athlete might be dropped if his/her performance decline or if scandals damage his/her image.

For the average player such as professional athlete B, professional sports globalization has afforded them higher salaries than before. Globalization has led to a rise in professional sports interest and viewership and, consequently, robust growth in professional athletes' salaries. At the same time, the fierce competition between athletes and the growing demands from clubs and fans have put intense pressure on athletes to perform regularly. Today's athletes have little room for mistakes. (LO1-2: Understand the relationship between globalization and IB, AACSB: Analytical Skills).

1-2 As you read the chapter, identify and show an example of each international mode of operations that is illustrated in the globalization of professional sports.

Sport is a major source of service exports and imports. Countries compete to organize major global events such as the world cup or the Olympics for many business and political reasons. Chief among them is tourism. Let's say that some American fans fly on Qatar Airlines to watch the upcoming world cup in Qatar in 2022. Their travel expenses in Qatar are service exports for Qatar and service imports for the U.S. (LO1-2: Understand the relationship between globalization and IB, AACSB: Analytical Skills).

Teaching Tips: Carefully review the PowerPoint slides for Chapter One. A good Internet source of information on globalization can be found at <http://www.globalization101.org/>. Finally, review the atlas provided in the text, where you will find maps of the world and its continents, as well as a country index.

I. THE WHY, WHAT, AND HOW OF STUDYING INTERNATIONAL BUSINESS (IB)

A. Why Study IB?

Nearly all organizations compete abroad, compete domestically against foreign or domestic companies with international operations, and/or use inputs from foreign suppliers. Thus, most managers should consider IB when setting their operating strategies and practices. Even if you don't anticipate direct IB activities, understanding the subject matter will likely prove useful.

Studying IB is essential because:

- most organizations are either international or compete with international companies,
- modes of operations may differ from those used domestically,
- it helps managers to decide where to find resources and to sell,
- the best way of conducting business may differ by country,
- an understanding helps you make better career decisions, and
- an understanding helps you decide what governmental policies to support.

B. What to Study in IB

In general, an organization's international operations depend on making sense of operating environments and developing the means to achieve its objectives:

1. **Operating Environment:** Physical, institutional, and competitive conditions differ among countries; these differences inevitably affect the optimum ways to do business.
2. **Operations of IB:** Companies operating internationally engage different modes of business, such as exporting and importing.

II. THE RELATIONSHIP BETWEEN GLOBALIZATION AND IB

Globalization is the widening and deepening of interdependent relationships among people from different nations. The term sometimes refers to the elimination of barriers to international movements of goods, services, capital, technology, and people that influence the integration of world economies.

A. How Does *IB* Fit In?

IB consists of all commercial transactions (including sales, investments, and transportation) between two or more countries.

The Relation to Globalization. The global connections between supplies and markets result from the activities of **international business (IB)**. Private companies undertake such transactions for profit; governments may undertake them either for profit or for other reasons.

III. THE FORCES DRIVING GLOBALIZATION AND IB

- **Globalization has been growing, although sporadically:** Currently, about a quarter of world production is sold outside of its country of origin, restrictions on imports have generally been decreasing, and output from foreign-owned investments as a percentage of world production has increased.
- **Globalization is less pervasive than generally thought:** Only a few countries (mainly

very small nations) either sell more than half of their production abroad or depend on foreign output for more than half their consumption. Further, the principal source of capital in almost all nations is domestic rather than international.

- **Globalization has economic and noneconomic dimensions:** Granted, these measurements address only economic aspects of globalization. More comprehensive comparisons include noneconomic dimensions such as people-to-people contacts through travel and communications, technological interchanges, government-to-government relationships, and acceptance and adaptation of attributes from foreign cultures such as words from other languages.
- **Globalization is stimulated by several interrelated factors, including:**
 1. **Rise in and application of technology**

Advances in communications and transportation have significantly increased the effectiveness and efficiency of international business operations. Today, a much larger portion of the population is involved in the development of new products, than just the production of products.
 2. **Liberalization of cross-border trade and resource movements**

Over time most governments have lowered restrictions on trade and foreign investment in response to the expressed desires of their citizens and producers. The primary motives for this change include giving citizens greater consumer choice and lower prices, international competition making domestic producers more efficient, and the hope that liberalization will cause other countries to also lower trade barriers.
 3. **Development of services that support IB**

Services provided by government, banks, transportation companies, and other businesses greatly facilitate the conduct and reduce the risks of doing business internationally.
 4. **Growth of consumer pressures**

Because of innovations in transportation and communications technology, consumers are well informed about and often able to access foreign products. Thus, competitors the world over have been forced to respond to consumers' demand for increasingly higher quality and more cost-competitive offerings. Consumer pressure has also spurred companies to spend more on research and development (R&D) and to search worldwide for innovations and products they can sell to ever-more-demanding consumers.
 5. **Increase in global competition**

The pressures of increased foreign competition often persuade firms to expand internationally to gain access to foreign opportunities and to improve their overall operational flexibility and competitiveness. So-called **born-global companies** start out with a global focus because of their founders' international experience and because advances in communications give them a good idea of the location for global markets and supplies.
 6. **Changes in political situations and government policies**

Today, only a few countries are heavily isolated economically or do business almost entirely within a political bloc. Nevertheless, governments still deny business with others for political reasons. Also, government policies may open markets as well as close them.