

THE GLOBAL BUSINESS ENVIRONMENT

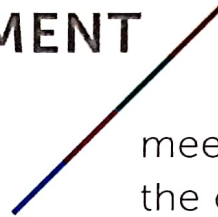
Meeting the Challenges

Janet Morrison | **3rd Edition**



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BUSINESS
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the challenges

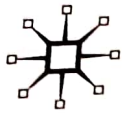
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meeting
the challenges

3rd edition

Janet Morrison

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Writing a book of this size and scope is a daunting task, especially for a sole author. The challenges facing businesses, highlighted in the book's subtitle, are, in a sense, mirrored by those which confronted me as its author. Foundation knowledge and skills, much like the basic nuts and bolts of a business, risked being overwhelmed by the convulsive events taking place in the business environment over the last few years. Of course, I was not starting from scratch, as this is the third edition of the book. But my approach to the task, as in the last edition, has not been to leave the edifice in place and simply make adjustments around the edges. The momentous changes taking place in today's world demand a more sweeping response. At the same time, I was aware that much of the strength of earlier editions lay in their lucid explanations of foundation material, which remain the best basis on which to understand the environmental shifts taking place, along with their impacts on organizations. Hence, foundation concepts are still core to the book, interpreted in new contexts and explored in new case studies and thought-provoking critical themes. I hope that this approach will prove stimulating, both to those familiar with previous editions and to those new to the text.

Although the conception and writing of this book fell to me alone, I am greatly indebted to a number of people whose help was indispensable in seeing this large project through to completion. I owe the deepest gratitude to my husband, Ian Morrison, for his support and encouragement. The book's production relied on the professional skills of several people who deserve many thanks. My editors, Ursula Gavin and Joanna McGarry, aided by the staff at Palgrave Macmillan, have overseen the project from the beginning. Jim Weaver designed the page layout. Linda Norris and her team at Aardvark Editorial transformed the manuscript into the finished book. Bryony Allen was the copy-editor. Annette Richards has again produced the index, which readers of earlier editions have found invaluable.

Numerous anonymous reviewers have helped to shape the outline and content of this third edition. They include those who gave me helpful insights and feedback on the second edition, and those who commented on this new edition at the manuscript stage. I appreciate all their remarks, and have endeavoured to incorporate as many as possible of their ideas. I hope the finished book will measure up to their expectations, and I hope especially that student readers will find it enjoyable as well as illuminating.

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ABOUT THE AUTHOR



Janet Morrison, now retired, was a senior lecturer in strategic and international management at Sunderland University Business School in the UK, where she enjoyed a long career in teaching, research, curriculum development and course administration. She taught international business modules at undergraduate and postgraduate levels, including International Business Environment, Management in a Global Environment, Japanese Business and the Social and Cultural Environment of International Business. She was programme leader for undergraduate international business degrees and the MBA in International Management.

Janet's academic background goes back to her first degree (in political science and history) at Mary Washington College of the University of Virginia in the US (now the University of Mary Washington), followed by a master's degree from the University of Toronto in Canada and, later, a law degree from the University of Newcastle-upon-Tyne in the UK. She also studied in Chicago and Nagoya in Japan.

Her published research includes articles in a range of areas, including corporate governance, Japanese business and corporate social responsibility. She is the author of the textbook *International Business*, published by Palgrave Macmillan in 2009.

PREFACE TO THE THIRD EDITION

The first edition of this book, entitled *The International Business Environment*, which was published in 2002, was pioneering in its international sweep and multidisciplinary approach. Looking back now, nearly a decade later, these guiding principles – rare in business studies texts at the time – have demonstrated their enduring value. This third edition reaffirms the relevance of this approach, in opening up new frontiers, both geographically and in terms of outlook. Globalization, a theme of this text from the outset, has remained pivotal in understanding and grappling with the changing business environment. A new title, *The Global Business Environment: Meeting the Challenges*, reflects both the expanding geographic scope of international business and the emergence of global issues, such as climate change and social responsibility, which are central to the challenges facing tomorrow's international managers.

New challenges can be daunting but can also bring excitement and rewards. The successful enterprise rests on skills, vision and resources, to be sure, but it also increasingly depends on knowledge and understanding of factors such as international consumer markets, political currents, financial systems and differing national cultures. Recent events, such as the global financial crisis, have shown that understanding these seemingly more mundane aspects of business is as crucial to business success as having a great idea or product. As in previous editions, I have attempted to present the basic business concepts clearly and logically for students, bearing in mind that many readers will have little or no background in business studies. Also in keeping with the aims of previous editions, I have highlighted changes and trends in societies which, while difficult to capture in quantitative terms, shape events and perceptions of the world, for businesses, governments and individuals alike.

New case studies and new features, such as Meet the CEO, which gives an insider's view of an enterprise, engage the reader in the real world of business. In writing the Meet the CEO features, I have attempted to convey both the joys and disappointments of the international business rollercoaster. In addition, new critical themes enable the reader to cast a critical eye over unfolding events, government policies and business strategies, assessing long-term trends and their impacts. Concepts and explanations are presented clearly, making this book accessible and valuable for students on both undergraduate and postgraduate courses. I am pleased that students and lecturers in a wide range of countries have found this book helpful, and that international students have found the text easy to read. This new edition has been written with this wide readership in mind. I hope that it will again prove stimulating, relevant and enjoyable for readers.

Janet Morrison

INTRODUCTION

The first edition of this book, in 2002, was forward-looking in its international approach, aiming to open up vistas of international business around the world, both geographically and culturally. Since then, international interactions among countries and organizations have multiplied beyond what most people would have thought possible. The third edition of this book continues in the spirit of earlier editions, stressing an underlying international approach, and aiming to acquaint readers with the themes and trends now shaping the global environment. These aims, for both author and student, have become more challenging as the years have passed. New players come on the international scene virtually every day, including companies, countries, international organizations and individual people – each of whom is capable of making a difference in the way business is conceived and carried on. New complexities can be exciting, but can also be daunting to take on board. Why and how does the Chinese entrepreneur now find the funding he needs from an American investment fund? This and many other intriguing aspects of the current international environment are explained and explored in this new edition. New, more highly focused, themes are introduced, and new features are presented which capture both the changing environment and the challenges it poses for international managers.

Critical themes

The last edition of this book revolved around two major themes. The first was globalization, encompassing deeper integration among businesses, governments and societies. And the second was diversity – among societies, peoples, regions and organizations. These themes remain relevant, and much of the discussion in the unfolding chapters will highlight them. However, the new evolving contours of the global economy call for more highly focused themes, which, at the same time, invite critical thinking. These critical themes are described below. For each chapter, relevant critical themes, usually three or four, will be flagged up at the beginning. 'Critical thinking' boxes throughout the chapter will provide opportunities to delve into particular themes in context.

There are eight critical themes, each explained briefly below:

- **Multilayered environment** – Businesses operate in an external environment that includes local communities, regions within countries, sovereign states, regional groupings of states and international groupings. Managing interactions in this increasingly complex international environment depends on understanding the dynamics of each.
- **Multidimensional environment** – Dimensions of the business environment include political, legal, economic, cultural, technological, financial and ecological. A separate chapter is devoted to each of these dimensions, and interactions are highlighted within each.

- **Role of the state** – States are now playing more active roles in business and society contexts than ever before, in both the developed world and developing countries. In some countries, this represents a radical departure from traditional views of what governments should be doing. Their impacts, both direct and indirect, are highlighted throughout the book.
- **Emerging economies** – Why single out emerging economies when the large western economies and Japan have been influential for longer in international business? Emerging economies, notably the Bric economies (Brazil, Russia, India and China) are catching up fast, and are now the greatest source of growth in the global economy. Their companies and governments are growing in confidence and economic power in international business, and their societies are the fastest-growing markets for consumer products.
- **Changing societies** – This theme echoes that of diversity among societies of earlier editions. However, we widen the focus to taken in changes taking place in developing countries, often due to globalization processes.
- **Globalization of industries** – Globalization remains a dominant theme, highlighted here by industries driven by global production networks. Many are highlighted specifically in the new feature, 'Exploring the global business environment'.
- **International risks** – Events in recent years have demonstrated the risks in globalized business activities across a range of sectors. Finance is perhaps the most prominent, as the 2008 global financial crisis alerted businesses and governments to the risks of volatility in globalized markets. But there are others, such as food and commodities, which will also come under the spotlight in the chapters.
- **Corporate social responsibility (CSR) and sustainability** – These topics are typically dealt with in separate chapters of business environment texts, and this book is no exception. However, these themes are now seen as core in business strategy, particularly in interactions with consumers and employees worldwide. Hence, these themes are introduced in Chapter 1, and run through the entire text. There is a grid at the end of this introduction, showing which themes feature most prominently in which chapters.

These eight themes are intended to promote critical thinking, prompted in part by the 'Critical thinking' questions which appear at intervals. They also serve to highlight recurring issues which confront international managers. The eight themes are not to be seen in isolation. In this text, as in real business situations, they are likely to appear in clusters, in which interrelationships will be illuminating. Critical thinking features and case studies will often involve considering cross-cutting themes. Here are two examples: sustainability in an emerging economy such as Brazil (case study in Chapter 11); and the risk of state intervention, as Google experienced in China (case study in Chapter 8).

Plan of the book

The book has been reorganized since the last edition, to bring globalization more into focus at the heart of the enterprise. Globalization now features in Part 1, highlighting impacts on the enterprise in the global environment. Economies and markets are grouped in a second part. The dimensions of the environment, formerly Part 2, have become Part 3. And Part 4, as in the last edition, focuses on global issues, and these

have been expanded to include the global financial crisis; ecology and climate change; and issues of ethics and CSR. The following is a brief summary of the four parts, indicating the overall focus of the part and the content of each chapter.

Part 1: The business in the global environment

There are two chapters in this part. **Chapter 1** provides an introduction to the business organization, outlining key concepts and organizational features. The chapter introduces the key dimensions of the business environment and the multiple layers of the environment in which businesses operate. The chapter shows that internal aspects of the business, such as corporate governance, shape its interactions in the external environment, whether at local or global level. **Chapter 2** pursues these themes in a context of globalization. It stresses that globalization is not one but many processes, which proceed at differing paces in different business sectors, different countries and different dimensions of the environment. The chapter highlights globalization as both a reality and a challenge for businesses, pointing to the ways in which multinational companies are meeting the challenges of new markets.

Part 2: Economies and markets

This part centres on the competitive environments in which businesses operate, including national, regional and global. **Chapter 3** introduces national economies and economic systems. Understanding global forces depends crucially on grasping how national economies function, along with the ways in which decision-makers form policies. Global economic integration is proceeding apace, but there remains huge diversity among national economic systems. **Chapter 4** takes us more broadly into the international environment, looking at the ways in which competitive forces, many of them from emerging economies, are shaping the competitive landscape. We examine the nature and patterns of international trade from a range of perspectives, including nation-states and business organizations. **Chapter 5** pursues MNE strategy in greater detail, looking first at the broader issues of strategy formation, including theories highlighting both internal and external factors. Corporate strategy is conceived in the international context, looking at divergent internationalization strategies in terms of the firm's long-term goals.

Part 3: Societies in the global environment

This part marks a shift from markets and strategy to broad areas of the international environment relating to societies – their cultures, how they are governed and how their legal systems impact on people. **Chapter 6** explores the cultural and social environments. For most businesses, as for people, a national culture is an anchoring point, but in today's globalized world, companies are constantly encountering new cultures, whether in markets or in new production locations. Managing in diverse cultural environments has become complex, made more so by the changes rapidly taking place in emerging economies. But opportunities abound as never before, for both firms and societies. In **Chapter 7**, on the political environment, we take a more formal and institutional view of societies, looking at the structures by which they are governed. These, too, change over time, especially in the context of newly independent states and those which are rebuilding their political systems following the collapse of communism. Managing political risk, especially evident in countries where the state plays a major role, is a major challenge for international business. These considerations are taken up again in the following chapter, **Chapter 8**, on the

legal environment. Here we look first at national legal systems and their differing approaches to civil and criminal law. For international business, legal risks arise in numerous types of activity, including forming joint ventures, making contracts with suppliers and customers, and employing people in different countries. Legal systems, like other dimensions of the environment considered in this part of the book, are changing. Some of those changes mark a greater awareness of cross-border legal issues and the need for global co-ordination.

Part 4: Global issues and business

This part focuses on areas of the business environment in which global issues and risks are the major features. In **Chapter 9**, we explore global financial markets, a sphere of business activity which has seen rapid growth associated with globalization, but which has also seen increased risks. Following a number of financial crises, regulatory changes at both national and international level aim to create a more stable global environment. **Chapter 10** also examines the impact of globalization, this time in the changing technological environment. Innovation has long been recognized as a key to competitiveness, and with more and more countries building greater innovation capacity, the scope for innovative technology now encompasses a wide range of countries, notably the large emerging economies.

In **Chapter 11**, we take an overview of the impacts of industrialization and globalization in terms of the natural environment. Paramount among these impacts is climate change, a global issue, but one which can have devastating effects in local environments, especially severe in the poorest and most vulnerable countries. Although many governments have been slow to take up the challenges, business initiatives abound, pointing the way with sustainable business strategies. These lead naturally to the topics of **Chapter 12**, ethics and corporate social responsibility. Multi-national companies are becoming increasingly involved in the communities and countries in which they operate. The challenges facing today's firms, whether in developed or developing countries, involve multiple stakeholders and issues of social responsibility. In **Chapter 13**, the last chapter, we take an overview of the critical themes, highlighting how they are intertwined in the preceding chapters. We also take the opportunity to look forward at how some of the forces featured in the critical themes are changing.

Chapter features

This book is designed to present the content in a logical and easily accessible manner. Although ideally a reader would begin with Chapter 1 and read each successive chapter in order, the book has been designed so that any chapter can be read independently, and the reader is guided by references to earlier relevant material, such as definitions of key concepts. Chapter features are outlined below, divided between those at the beginning of the chapter, those in the body of the text, and those at the end of each chapter.

At the beginning of each chapter ...

- An **Outline** of the sections in the chapter.
- The **Learning objectives** of the chapter clarify particular outcomes which the reader can expect.

- A list of the chapter's **Critical themes** follow, showing how each theme is illustrated in the text.
- An **Opening case study** sets the scene for the chapter, raising issues which will arise in the text. This case study usually features a company and raises issues of corporate strategy in the changing environment. Questions for discussion and references for further exploration are given.

In the body of the chapter ...

- **Key words** are defined in the text, and definitions appear in the margins alongside the relevant section in which they are introduced (this is a new feature). These include concepts, principles and major international institutions. (They also feature in a glossary at the end of the book.)
- **References** are given in parentheses in the text, for example (Tellis, 2009). The References section at the end of the book lists all references in the main text. References within case studies are given at the end of each case study.
- **Summary points** boxes appear at the end of each major section. These consolidate the main points, and can be used as an aid to revision.
- Web references in **More online** ... These refer to further information available on the internet, relating to the topic under consideration. Most refer to companies which illustrate the point being discussed.
- **Exploring the global business environment** – This is a new case study feature. This case study focuses on an industry, country or group of countries, highlighting challenges in the global environment. Questions for discussion and references are given.
- **Meet the CEO** – This is a new case study feature. Here, there is an opportunity to find out how the CEO of a real company sees his/her job and views the challenges ahead, from a personal point of view. The CEOs are from large and small companies, and from a number of different countries.
- **Critical thinking** boxes appear throughout the chapter. They raise questions and issues which invite the reader to examine the topic critically, often exploring further implications. These boxes highlight the critical themes in each chapter.

At the end of the chapter ...

- **Conclusions** – Each chapter ends with a list of conclusions, which are drawn from the major sections.
- **Review questions** are designed to cover all the topics in the chapter. They are an aid to learning for self-study or discussion. They are also a revision aid.
- **Key revision concepts** – This is a new feature, listing the key concepts and their page numbers in the chapter. These are aids to understanding the themes, discussing case studies and revising for examinations.
- Two **assignments** are given after the review questions. These are broader in scope than the review questions. They require some independent research and offer opportunity to present a considered analysis in a structured way.
- **Further reading** gives an indication of other sources to read that provide both further information and differing critical perspectives on the topics in the chapter.

- **Closing case study** – This is a new feature. This case study focuses on a company, raising issues that have featured in the chapter, and posing strategic questions for the firm. Questions for discussion and references for further exploration are provided.

Other learning aids

Other learning aids are listed below:

- **Grid of critical themes** – This grid, which is at the end of this introduction, shows which critical themes are featured in each chapter.
- **Case study grid** – Also at the end of this introduction, this is a guide to the content of the many case studies in the book, making it easy to see at-a-glance the geographical focus, industry, and critical themes of each case study.

Features at the end of the book

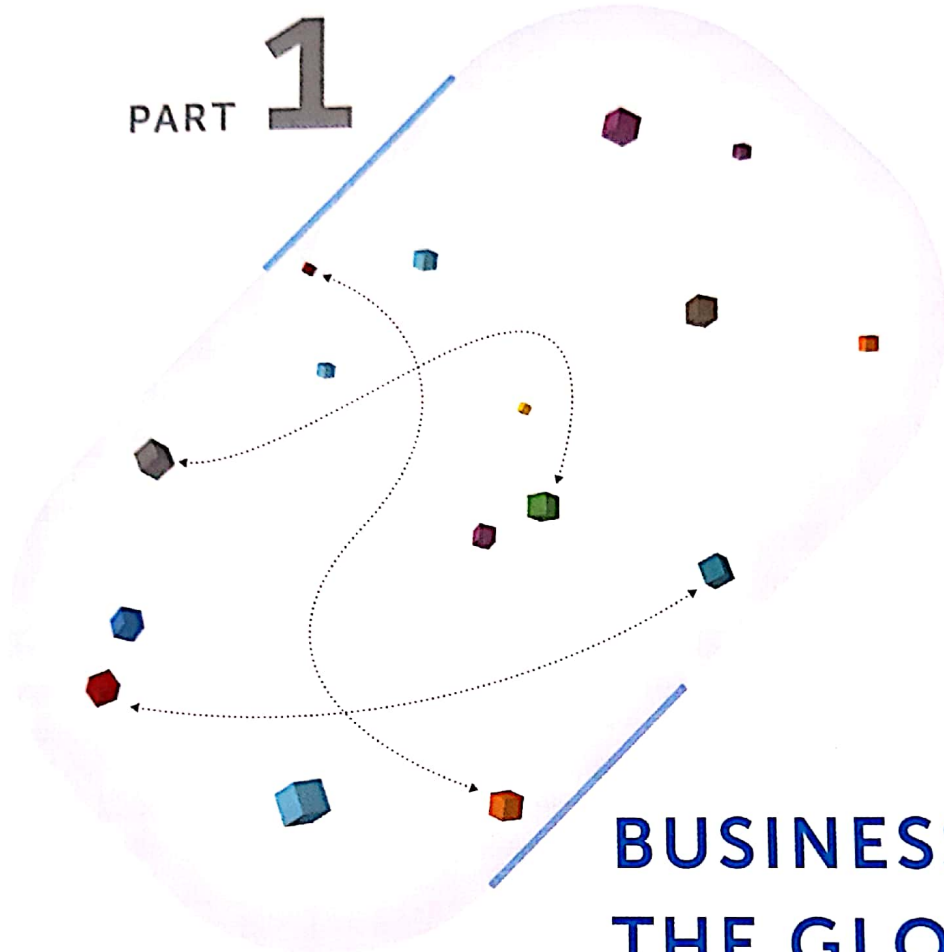
- **Maps** section – Identifying and understanding the geographical location of countries and regions might seem incidental, but is immensely useful in understanding the substantive issues discussed in the text.
- **Glossary** of key words – This contains all the key words highlighted in bold in the text.
- **References** – This section provides details of the references cited in the text, listed alphabetically by author or organization.
- **Index** – This is divided into three sections: Organizations, People and Subjects.

The global business environment is constantly changing, and along with it the individuals, firms and countries that shape events and pose future challenges. This book deliberately focuses on corporate and national actors that are at the forefront of change: some large companies are familiar names, but there are many smaller ones looking to make their mark and shape global markets. No one knows which will be tomorrow's winners, and which will be superseded by friskier, more innovative competitors. However, as this book highlights, the emergence of winners is not as haphazard as a casual observer might think. The global business environment in its many dimensions and different locations provides abundant lessons for the astute international manager eager to take on the challenges.

CRITICAL THEMES IN EACH CHAPTER

	Multilayered environment	Multidimensional environment	Role of the state	Emerging economies	Changing societies	Globalization of industries	International risks	CSR and sustainability
1 Introduction	✓	✓		✓			✓	✓
2 Globalization	✓			✓	✓	✓		
3 Economies and markets	✓	✓	✓	✓				
4 Trade and global competition	✓		✓	✓				
5 Strategies in a globalized world			✓	✓		✓	✓	
6 Cultural and social environment	✓	✓		✓	✓			
7 Political environment	✓	✓	✓				✓	
8 Legal environment	✓		✓				✓	✓
9 Financial markets	✓		✓			✓	✓	✓
10 Technology and innovation	✓	✓	✓	✓		✓		
11 Ecology and climate change	✓		✓	✓	✓			✓
12 Ethics and CSR	✓				✓	✓		✓
13 Critical themes in perspective	✓	✓	✓	✓	✓	✓	✓	✓

PART **1**



BUSINESS IN THE GLOBAL ENVIRONMENT

- How are the emerging economies of China and India changing the business environment?
- What impact has the global financial crisis had on the way businesses operate?
- How should business leaders in the age of the multinational enterprise approach their social and ethical responsibilities?

This bestselling textbook tackles these and many other challenges head on. Combining a clear, thorough introduction to the business environment with a uniquely global perspective, *The Global Business Environment* covers all you need to know about the rapidly changing context in which businesses operate.

Features throughout the book are designed to help you learn, revise and think critically about the global business environment:

- **Case studies:** Over 30 case studies invite you to explore how a diverse range of businesses, industries, governments and individuals are meeting the challenges of the contemporary business environment
- **Spotlight on emerging economies:** Provides insight into the emerging economies of Brazil, Russia, India and China, and their place in the global economy
- **Meet the CEO:** Your chance to learn about some of the most influential business leaders in the world, from the CEO of multinational Unilever to the chairman of Mitsubishi
- **Critical thinking:** Recurring themes and critical thinking boxes in every chapter encourage debate on key issues from the globalization of industries to environmental sustainability, developing skills that will take you far beyond your business degree

Enriched by Janet Morrison's characteristically clear, authoritative writing style and an unrivalled range of learning tools, *The Global Business Environment* is an invaluable resource for students at any stage of their business lives.

Janet Morrison was Senior Lecturer in Strategic and International Management at the Sunderland University Business School, UK. She is also the author of *International Business*, published by Palgrave Macmillan.



At www.palgrave.com/business/morrisongbe3, students and lecturers will find a wealth of resources, including extra case studies, a wealth of interviews with business leaders and more, all included in the book.

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