

The International Labour Organization reports there are 215 million child laborers worldwide; 115 million of them work in hazardous conditions.



Globalization and International Business

17

Going Global Isn't Just for Travelers

Management Live

Cultural Awareness and *The Amazing Race*

The popular reality series *The Amazing Race* pits teams of players in an around-the-world competition. Each week, contestants race to complete cultural and physical challenges. They face grueling travel demands within and between countries and face unfamiliar languages and customs. Sleep and eating schedules are thrown off by global time differences. And, one thing becomes painfully clear as the race episodes unfold. Many of the participants do not know a lot about other countries in the world.

Like most of us, race contestants have grown used to the values and patterns of home. And that's understandable. But, if you watch closely, you'll see that their lack of cultural awareness sometimes reflects attitudes of superiority. As the race teams come face-to-face with one new culture after another, however, they learn a lot about themselves in the process.

When Nat Strand and Kat Chang won the \$1 million prize, they were the first female team to do so. Their journey took them to 30 cities across four continents for a total of 32,000 miles. They crossed a lot of national and cultural boundaries along the way, much as today's global organizations do.

There's no better time to check your cultural awareness than now. This chapter discusses many ways you can put it to work in today's global economy. And there may well be a million dollar payoff for success in your future—measured in career success!



Photo by Jeffrey R. Staab/CBS/GettyImages

YOUR CHAPTER 17 TAKEAWAYS

1. Discuss ways that globalization affects international business.
2. Understand what global corporations are and how they work.

WHAT'S INSIDE

Explore Yourself
More on **cultural awareness**

Role Models
Nobel peace prize winner asks global firms to fight poverty

Ethics Check
Nationalism and protectionism

Facts to Consider
Corruption and bribes haunt global business

Manager's Library
The New Digital Age: Reshaping the Future of People, Nations and Business
by Eric Schmidt and Jared Cohen

Takeaway 17.1

How Does Globalization Affect International Business?

ANSWERS TO COME

- Globalization involves the growing interdependence of the world's economies.
 - Global sourcing is a common international business activity.
 - Export/import, licensing, and franchising are market entry approaches to international business.
 - Joint ventures and wholly owned subsidiaries are direct investment approaches to international business.
 - **International business is complicated by different legal and political systems.**
 - International businesses must navigate regional economic alliances
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OUR GLOBAL COMMUNITY IS RICH WITH INFORMATION, OPPORTUNITIES, controversies, and complications. We get on-the-spot news delivered from around the world right to our smart phones. When crises like the Japanese tsunami or civil strife in Syria happen, Twitter, Facebook, and other social media get the news out instantaneously. You can board a plane in New York and fly nonstop to Beijing, China, or Mumbai, India, or Johannesburg, South Africa. Colleges offer a growing variety of study-abroad programs. And, an MBA earned from a globally ranked school is an increasingly desirable credential.

Here are some conversation starters on the business side of things. Ben & Jerry's Ice Cream is owned by the British-Dutch firm Unilever; Anheuser-Busch is owned by the Belgian firm InBev; Mercedes builds M-class vehicles in Alabama; and India's Tata Group owns Jaguar, Land Rover, and Tetley Tea. Japan's Honda, Nissan, and Toyota get 80% to 90% of their profits from sales in America, IBM employs more than 40,000 software developers in India. Components for Boeing planes come from 5,400 suppliers in 40 countries, and Nike has manufacturing contracts with over 120 factories in China alone.¹

The growing power of global businesses affects all of us in roles as citizens, consumers, and career-seekers. If in doubt, take a look at what you are wearing. It's hard to find a garment or a shoe that is really "Made in America." What about your T-shirt? Where did you buy it? Where was it made? Where will it end up?

In a fascinating book called *The Travels of a T-Shirt in the Global Economy*, economist Pietra Rivoli tracks the origins and disposition of a T-shirt that she bought while on a vacation to Florida.² As shown in Figure 17.1, the common T-shirt lives a complicated global life. The life of Rivoli's T-shirt begins with cotton grown in Texas. It moves to China, where the cotton is processed and white T-shirts are manufactured. These are imported by a U.S. firm that silk-screens them and sells them to retail shops for resale to American customers. When customers like Rivoli donate used T-shirts to charity, they're sold to a recycler. In this case the recycler sells them to a vendor in Africa, who distributes them to local markets, where they are sold yet again to new customers.

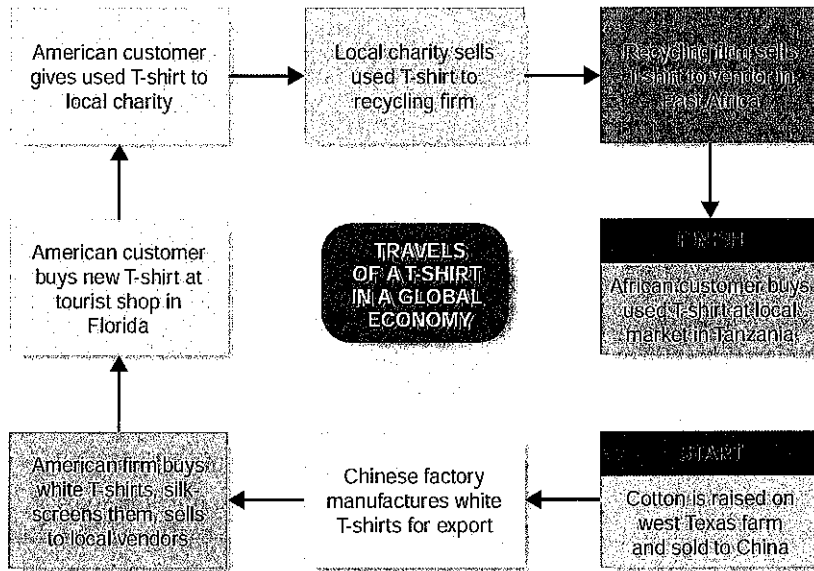


FIGURE 17.1

How Does a T-Shirt Travel Through the World's Global Economy?

This sketch shows the T-shirt beginning as cotton grown in Texas that is shipped to China, where it is processed and white T-shirts are manufactured. The white shirts come back to the United States, where they are silk-screened and sold to retail shops for resale to customers. If customers donate used T-shirts to a charity, they may go to a recycler, who sells them to vendors in other countries, where the used T-shirts get sold again to local customers.

III Globalization involves the growing interdependence of the world's economies.

We live and work in a **global economy** where labor and resource supplies, capital and product markets, and business competition are worldwide in scope.³ Pretty much everything we do—from the things we buy to the food we eat to the investments we make, is influenced by the forces of **globalization**. Think of it as the process of growing interconnections among the components of the global economy.⁴ Harvard scholar and consultant Rosabeth Moss Kanter describes globalization as “one of the most powerful and pervasive influences on nations, businesses, workplaces, communities, and lives.”⁵

Do you have a good idea of how globalization affects your life? It's not just an issue of what you buy and how you invest. What about your work and career plans? If you come to Ohio, where I live, you'll find over 180,000 people working for foreign-owned firms.⁶ They hold jobs created by **insourcing** where a foreign investor, say Honda, establishes business operations in America and hires local workers to staff it. Some 5.65 million U.S. jobs are linked to such inward foreign investment and, interestingly, these jobs pay 33% more on the average than ones locally created.⁷

Outsourcing is the other side of the jobs story in the global economy. It shifts them to foreign locations to save costs by taking advantage of lower-wage skilled labor. John Chambers, CEO of Cisco Systems Inc., pretty much lays it on the line for all of us when he says: “I will put my jobs anywhere in the world where the right infrastructure is, with the right educated workforce, with the right supportive government.”⁸ Although investors might favor outsourcing as a cost-reduction strategy, not everyone is pleased to hear this message. How would you like to be told that your job was being eliminated and outsourced to another country? Should you be thinking about how this possibility might affect future job opportunities in your chosen career?

In the **global economy**, resources, markets, and competition are worldwide in scope.

Globalization is the process of growing interdependence among elements of the global economy.

Insourcing is the creation of domestic jobs by foreign employers.

Outsourcing shifts local jobs to foreign locations to take advantage of lower-wage labor in other countries.

An **international business** conducts commercial transactions across national boundaries.

Why Businesses Go Global »»

||| Globalization creates a variety of international business opportunities.

Firms like Cisco, Sony, Ford, and IKEA are large **international businesses**. They **conduct for-profit** transactions of goods and services across national boundaries. Such businesses, from small exporters and importers to the huge multinational corporations, form the foundations of world trade. They move raw materials, finished products, and specialized services from one country to another in the global economy. And, they all “go global” for good reasons—profits, customers, suppliers, capital, labor, and risk management.⁹

- *Profits*—gain profits through expanded operations.
- *Customers*—enter new markets to gain customers.
- *Suppliers*—get access to products, services, and materials.
- *Capital*—get access to financial resources.
- *Labor*—get access to low-cost, talented workers.
- *Risk*—spread assets among multiple countries.

Nike’s swoosh is one of the world’s most globally recognized brands. But did you know that Nike, headquartered in Beaverton, Oregon, does no domestic manufacturing? All its products come from sources abroad. New Balance, by contrast, still produces at a few factories in the United States even while making extensive use of global suppliers in China and elsewhere.¹⁰ Although competing in the same industry, Nike and New Balance are pursuing somewhat different global strategies. But both are also seeking the international business advantages listed above.

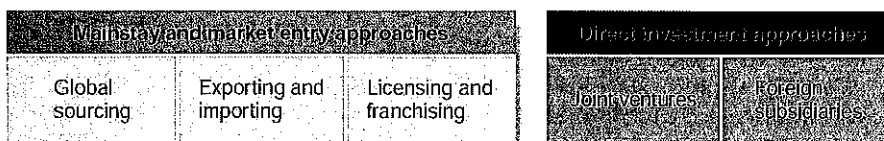
Today you can also add *economic development* to the list of reasons why some businesses go global. An example is found in Rwanda, where coffee giants Green Mountain Coffee Roasters, Peet’s Coffee & Tea, and Starbucks work with the non-profit TechnoServe. Its goal is to help raise the incomes for African coffee farmers by improving their production and marketing methods. The global firms send advisors to teach coffee growers how to meet their international standards. It’s a win-win. The global firm gets a quality product at a good price, the growers gain skills and market opportunities, and the local economy improves.¹¹

||| Global sourcing is a common international business activity.

Just as there more is than one reason for getting into international business, there are several ways of doing it. A mainstay approach is **global sourcing**, where a business purchases materials, manufacturing, or services from around the world. It basically takes advantage of international wage gaps by contracting for low-cost goods and services in foreign locations. You see lots of it in manufacturing.

In **global sourcing**, firms purchase materials, manufacturing, or services around the world for local use.

Boeing’s new 787 Dreamliner, for example, has wings and center fuselage from Japan, engines from the U.K. and Canada, and doors from Sweden and France. You also see it in services, such as when



Increasing involvement in ownership and control of foreign operations



WE CAN CREATE A WORLD WHERE POVERTY DOESN'T EXIST . . . NOW
EVERY TIME I WANT TO ADDRESS A PROBLEM, I CREATE A BUSINESS

Role Models

■ Nobel Peace Prize Winner Asks Global Firms to Fight Poverty

Should global businesses balance the pursuit of profit with genuine efforts to do public good? A strong and positive “Yes!” is the answer given by Nobel Peace Prize winner Muhammad Yunus. The Bangladeshi economist gained fame for creating the Grameen Bank to offer microcredit loans to help fight poverty in his home country. The bank loans small amounts (as low as \$30) to poor applicants (96% women) so that they can start their own small businesses and gain financial independence.

The Grameen Bank model of microfinance has spread around the world to serve some 200 million borrowers. Now Yunus is asking global firms to join in a transformational approach that unlocks the power of business to tackle poverty and other enduring social problems. In his book *Creating a World Without Poverty*, Yunus advocates a social business model in which a company's products or services are targeted to benefit those suffering from social ills. “Now every time I want to address a problem, I create a business,” he says. “These businesses are all focused on problem solving, not on money making.”

Yunus's call to the global business community was heard by the German yogurt maker Danone. It joined with him to start

Grameen Danone as the world's first multinational social business. The firm manufactures nutritional yogurt and sells it at low cost in an attempt to help the 46% of Bangladesh's children that are undernourished. Profits in this “new class of business” are reinvested rather than being paid out as dividends, says Yunus. As profits grow, they are used to provide even cheaper and better goods and services to customers.

“We can create a world where poverty doesn't exist,” claims Yunus, while hoping that within five years “at least 1 percent of the world economy be made up with social business.” In recognition of his efforts “to combat global poverty,” he was awarded the Congressional Gold Medal in 2013.

WHAT'S THE LESSON HERE?

When a multinational company travels into countries where social problems like poverty, disease, and illiteracy are present, should it find a way to help? Can the social business model really take off in the global business context? Or, is this something most likely to remain the “unusual” case rather than the “common” one in the future? Do you agree, or not, that global corporations can become powerful tools for eliminating social problems?

speaking with a customer-support call center in the Philippines or having medical X-rays read by physicians in India.

The network of outsourcing suppliers and contractors is called a firm's global supply chain. And this chain can get very complex and risky as it extends around the world. Automakers suffered when the Japanese tsunami knocked many parts suppliers offline. Computer makers suffered when massive flooding in Thailand shut down their supply of hard drives. Apple suffered when complaints surfaced that some of its Chinese suppliers used inappropriate work practices, and an internal audit by the firm revealed problems with work hours (62%), worker safety (35%), and hazardous substance practices (32%).¹²

The garment industry largely runs on a global sourcing model that is quite notorious for controversy. Benetton, for example, contracts with a shifting mix of some 700 suppliers to support a fast fashion strategy. Its garments, along with those from other Western retailers, were linked to several outsourcing factories destroyed when a building collapsed in Bangladesh killing over 1100 people. **The tragedy focused public attention on how well global firms were monitoring safety conditions and work practices at their Bangladeshi suppliers. The *Wall Street Journal* used this case to say that many global supply chains are “tangled networks” where it is “difficult to assess blame when something goes wrong.”¹³**

A **global supply chain** is a network of a firm's outsourcing suppliers and contractors.

Reshoring moves foreign production and jobs back to domestic locations.

In **exporting**, local products are sold abroad.

Importing is the process of acquiring products abroad and selling them in domestic markets.

In **licensing**, one firm pays a fee for rights to make or sell another company's products.

In **franchising**, a firm pays a fee for rights to use another company's name and operating methods.

A **joint venture** operates in a foreign country through co-ownership with local partners.

Problems with sketchy suppliers, rising labor costs in places like China, high transportation costs, cheaper energy at home, and good public relations are all reasons why some firms are now modifying their outsourcing strategies. You'll notice an increasing number of news reports about reshoring that shifts foreign production—and jobs—back to the domestic locations. A survey of large U.S.-based manufacturers by the Boston Consulting Group, for example, found that almost one-half had plans to return some foreign manufacturing to the United States. The report concluded that "Companies are realizing that the economics of manufacturing are swinging in favor of the U.S."¹⁴

III Export/Import, licensing, and franchising are market entry approaches to international business.

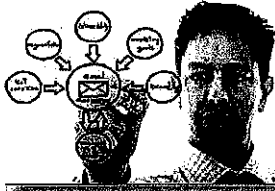
A lot of international business involves **exporting**—selling locally made products in foreign markets, and **importing**—buying foreign-made products and selling them in domestic markets. Because the growth of export industries creates local jobs, you'll often read and hear about governments supporting these types of business initiatives.

Another form of international business is the **licensing agreement**, where **foreign firms** pay a fee for rights to make or sell another company's products in a specified region. The license typically grants access to a unique manufacturing technology, special patent, or trademark. One of the business risks of licensing is counterfeiting.¹⁵ New Balance, for example, licensed a Chinese supplier to produce one of its brands. Even after New Balance revoked the license, the supplier continued to produce and distribute "New Barlun" shoes around Asia. New Balance ended up facing costly and complex litigation in China's courts.¹⁶

In **franchising**, a foreign firm buys the rights to use another's name and operating methods in its home country. When companies such as McDonald's or Subway franchise internationally, they sell facility designs, equipment, product ingredients, recipes, and management systems to foreign investors. They also typically retain certain product and operating controls to protect their brand's image.

III Joint ventures and wholly owned subsidiaries are direct investment approaches to international business.

Sooner or later, some firms that are active in international business decide to make costly direct investments in operations in foreign countries. One way to do this is by a **joint venture**. This is a co-ownership arrangement in which the foreign and local partners agree to pool resources, share risks, and jointly operate the new business. Sometimes the joint venture is formed when a foreign partner buys part ownership in an existing local firm. In other cases it is formed when the foreign and local partners start an entirely new operation together.



{ DUE DILIGENCE: MAKE SURE THAT YOUR JOINT VENTURE PARTNER HAS A REPUTATION FOR GOOD ETHICS.

Tips to Remember

■ Checklist for Choosing a Good Joint Venture Partner

- Familiar with your firm's major business
- Employs a strong local workforce
- Values its customers
- Values its employees
- Has strong local market for its own products
- Has record of good management
- Has good profit potential
- Has sound financial standing
- Has reputation for ethical decision making
- Has reputation for socially responsible practices

International joint ventures are types of **global strategic alliances** in which foreign and domestic partners cooperate for mutual gains. Each partner hopes to get from the alliance things they couldn't do or would have a hard time doing alone. For the local partner an alliance may bring access to technology and opportunities to learn new skills. For the outside partner an alliance may bring access to new markets and customers, and the expert assistance of locals that understand them.¹⁷

Joint ventures were the business forms of choice for the world's large automakers when they decided to pursue major operations in China. Recognizing the local complexities, they decided it was better to cooperate with local partners than try to enter the Chinese markets on their own. Of course, such joint venture deals pose potential risks. And loss of technology is a big one. Not long ago, GM executives noticed that a new car from a fast-growing local competitor looked very similar to one of their models. This competitor was partially owned by GM's Chinese joint venture partner, and GM claimed its design was copied. The competitor denied it, and Chery Automobile, Ltd., has grown to be China's largest exporter for cars.¹⁸

In contrast to the international joint venture, which is a cross-border partnership, a **foreign subsidiary** is a local operation completely owned and controlled by a foreign firm. It might be a local firm that was purchased in its entirety or it might be a brand-new operation built from start as a **greenfield venture**. Decisions to set up foreign subsidiaries are most often made only after foreign firms have gained experience in the local environment through earlier joint ventures.

||| International business is complicated by different legal and political systems.

As you might imagine, the more home-country and host-country laws differ, the more difficult and complex it is for international businesses to operate successfully. And the greater the depth of foreign involvement, the more complex it becomes to understand and adapt to local ways. Common legal problems faced by international businesses involve incorporation practices and business ownership; negotiation and implementation of contracts with foreign parties; handling of foreign exchange; and intellectual property—patents, trademarks, and copyrights.

In a **global strategic alliance**, each partner hopes to achieve through cooperation things they couldn't do alone.

A **foreign subsidiary** is a local operation completely owned by a foreign firm.

A **greenfield venture** establishes a foreign subsidiary by building an entirely new operation in a foreign country.

The issue of intellectual property is particularly sensitive these days. You might know this best in terms of concerns about movie and music downloads, photocopying of books and journals, and sale of fake designer fashions. Many Western businesses know it as lost profits due to their products or designs being copied and sold as imitations by foreign firms. After a lengthy and complex legal battle, for example, Starbucks won a major intellectual property case it had taken to the Chinese courts. A local firm was using Starbucks' Chinese name, "Xingbake" (*Xing* means "star" and *bake* is pronounced "bah kuh"), and was also copying its café designs.¹⁹

When international businesses believe they are being mistreated in foreign countries, or when local companies believe foreign competitors are disadvantaging them, their respective governments might take the cases to the World Trade Organization (WTO). The 140 members of the WTO give one another **most favored nation status**—the most favorable treatment for imports and exports. Members also agree to work together within its framework to try to resolve some international business problems.

Even though WTO members are supposed to give one another most favored nation status, trade barriers are still common. They include outright **tariffs** or taxes that governments impose on imports. They also include **nontariff barriers** that discourage imports in nontax ways such as quotas and government import restrictions.

Yet another trade barrier emerges as outright **protectionism**—the attempt by governments to protect local firms from foreign competition and save jobs for local workers. You will see such issues reflected in many political campaigns and debates. And the issues aren't easy. Government leaders face internal political dilemmas involving the often-conflicting goals of seeking freer international trade while still protecting domestic industries. Such dilemmas can make it difficult for countries to reach international agreements on trade matters and hard for the WTO to act as a global arbiter of trade issues.

The **World Trade Organization (WTO)** is a global institution established to promote free trade and open markets around the world.

Most favored nation status gives a trading partner the most favorable treatment for imports and exports.

Tariffs are taxes governments levy on imports from abroad.

Nontariff barriers are nontax policies that governments enact to discourage imports, such as quotas and import restrictions.

Protectionism is a call for tariffs and favorable treatments to protect domestic firms from foreign competition.

REUTERS/Carlos Hugo Yaca/Landov



{ BOLIVIA'S PRESIDENT TELLS GLOBAL FIRMS THE COUNTRY'S NATURAL RESOURCES BELONG TO ITS PEOPLE.

Ethics Check

■ Nationalism and Protectionism

The headline read "Bolivia Seizes Control of Oil and Gas Fields." The announcement said: "We are beginning by nationalizing oil and gas; tomorrow we will add mining, forestry, and all natural resources, what our ancestors fought for."

The country's president, Evo Morales, set forth new terms that gave a state-owned firm 82% of all revenues, leaving 18% for the foreign firms. He said: "Only those firms that respect these new terms will be allowed to operate in the country." The implicit threat was that any firms not willing to sign new contracts would be sent home.

Although foreign governments described this nationalization as an "unfriendly move," Morales considered it patriotic.

His position was that any existing contracts with the state were in violation of the constitution, and that Bolivia's natural resources belonged to its people.

YOU DECIDE

If you were the CEO at one of these global firms, do you resist and raise the ethics of honoring your "old" contracts with the Bolivian government? Or do you comply with the new terms being offered? And as an everyday citizen of the world, can you disagree that a country has a right to protect its natural resources from exploitation by foreigners? Just what are the ethics of Morales's decision?

III International businesses must navigate regional economic alliances.

Globalization has brought with it the growth of regional economic alliances, where nations agree to work together for economic gains. **NAFTA, the North American Free Trade Agreement, creates a trade zone that frees the flows of goods and services, workers, and investments among the United States, Canada, and Mexico.** Many firms have taken advantage of NAFTA by moving production facilities to Mexico and benefit from lower wages paid to skilled Mexican workers. These job shifts have pros and cons, and NAFTA is still a hot topic in some political debates. Arguments on the positive side credit NAFTA with greater cross-border trade and strengthening of the Mexican business environment. Arguments on the negative side blame NAFTA for substantial job losses to Mexico and lower wages being paid to American workers wanting to keep their jobs.

The **European Union or EU** is both a regional economic and political alliance. The EU now comprises 28 countries that are integrating politically with a European Parliament and economically by removing barriers to cross-border trade and business development. Seventeen EU members use a common currency—the *euro*—that is a major competitor to the U.S. dollar in the global economy.

APEC, Asia-Pacific Economic Cooperation, links 21 nations to promote free trade and investment in the Pacific region. Its members include some of the world's fastest growing economies such as China, Republic of Korea, Indonesia, Russia, and Australia.

Africa is also moving center stage in world business headlines. The region's economies are growing, the middle class is expanding, and regional economic alliances are gaining strength. Among them, the **Southern Africa Development Community, SADC**, links 14 southern African countries in trade and economic development efforts to improve prosperity and living standards for their citizens.

NAFTA is the North American Free Trade Agreement linking Canada, the United States, and Mexico in an economic alliance.

The EU or European Union is a political and economic alliance of 28 European countries.

APEC is the Asia-Pacific Economic Cooperation that links 21 nations to promote free trade and investment in the Pacific region.

SADC is the Southern Africa Development Community that links 14 southern African countries in trade and economic development efforts.



{ NATIONAL ECONOMIES ARE NOW GLOBAL; BUSINESS IS NOW GLOBAL; OUR PERSONAL THINKING MUST BE GLOBAL AS WELL.

Explore Yourself

■ Cultural Awareness

The forces of globalization are often discussed in respect to job migration, outsourcing, currency fluctuations, and the fortunes of global corporations. Yet it is important to remember that globalization is best understood and dealt with in a context of **cultural awareness**.

We become used to the ways of our culture. But many of these same values and patterns of behavior can be called into question when we work and interact with persons from different cultures. Our ways of doing things may seem strange and even, at the extreme, offensive to others who come from different cul-

tural backgrounds. It's only natural, too, for cultural differences to be frustrating and even threatening when we come face-to-face with them. National economies are now global; business is now global; our personal thinking must be global as well.

Get to know yourself better by taking the **Global Intelligence self-assessment** and completing other activities in the *Exploring Management Skill-Building Portfolio*.

STUDY GUIDE

Takeaway 17.1

How Does Globalization Affect International Business?

Terms to Define

APEC

EU

Exporting

Foreign subsidiary

Franchising

Global economy

Global sourcing

Global strategic alliance

Globalization

Greenfield venture

Importing

Insourcing

International business

Joint venture

Licensing

Most favored nation status

NAFTA

Nontariff barriers

Outsourcing

Protectionism

Reshoring

SADC

Tariffs

World Trade Organization (WTO)

Rapid Review

- The forces of globalization create international business opportunities to pursue profits, customers, capital, and low-cost suppliers and labor in different countries.
- The least costly ways of doing business internationally are to use global sourcing, exporting and importing, and licensing and franchising.
- Direct investment strategies to establish joint ventures or wholly owned subsidiaries in foreign countries represent substantial commitments to international operations.
- Environmental differences, particularly in legal and political systems, can complicate international business activities.
- The World Trade Organization (WTO) is a global institution established to promote free trade and open markets around the world.
- Regional economic alliances link member nations for cooperation in economic and trade development.

Questions for Discussion

1. Why would a government want to prohibit a foreign firm from owning more than 49% of a local joint venture?
2. Are joint ventures worth the risk of being taken advantage of by foreign partners, as with GM's "Chery" case in China?
3. What aspects of the U.S. legal environment might prove complicated for a Russian firm starting new operations in the United States?

Be Sure You Can

- explain how globalization affects our lives
- list five reasons that companies pursue international business opportunities
- describe and give examples of how firms do international business by global sourcing, exporting/importing, franchising/licensing, joint ventures, and foreign subsidiaries
- discuss how differences in legal environments can affect businesses operating internationally
- explain the purpose of the World Trade Organization

Career Situation: What Would You Do?

Your new design for a revolutionary golf putter has turned out to be a big hit with friends and players on the local golf courses. So, you decide to have some made, start selling them, and see if you can make a business out of it. A friend says: "Go to China, someone there will build it cheap and to your quality standard." But you're not sure. Sending your design to China for manufacturing is worrisome, and there's a side of you that would really like to have "Made in America" stamped on the clubs. Make a list of positives and negatives of manufacturing in each place. What factors are likely to drive your final decision on global versus local sourcing?

Takeaway 17.2

What Are Global Corporations, and How Do They Work?

ANSWERS TO COME

- Global corporations or MNCs do substantial business in many countries.
- The actions of global corporations can be controversial at home and abroad.
- Managers of global corporations face a variety of ethical challenges.
- Planning and controlling are complicated in global corporations.
- Organizing can be difficult in global corporations.
- Leading is challenging in global corporations.
- Technology is a global game changer.

IF YOU TRAVEL ABROAD THESE DAYS, MANY OF YOUR FAVORITE BRANDS AND products will travel with you. You can have a McDonald's sandwich in over 100 countries, enjoy Häagen-Dazs ice cream in 50, and brush up with Procter & Gamble's Crest in 180. Economists even use the "Big Mac" index to track purchasing power parity among the world's currencies. A recent index listed \$4.37 in the U.S., \$2.57 in China, and \$4.88 in the Euro area.²⁰

||| Global corporations or MNCs do substantial business in many countries.

A global corporation or multinational corporation (MNC) has extensive international operations in many foreign countries and derives a substantial portion of its sales and profits from international sources.²¹ The world's largest MNCs are identified in annual listings such as *Fortune* magazine's Global 500 and the *Financial Times*' FT Global 500. They include names very familiar to consumers, such as Wal-Mart, BP, Toyota, Nestlé, BMW, Hitachi, Caterpillar, Sony, and Samsung. Also on the list are some you might not recognize such as big oil and gas producers like PetroChina (China), Gazprom (Russia), Total (France), and Petrobras (Brazil).²²

Top managers of some multinationals are trying to move their firms toward becoming transnational corporations. That is, they would like to operate worldwide without being identified with one national home.²³ When you buy Nestlé's products, for example, do you have any idea that it is a registered Swiss company? The firm's executives view the entire world as their domain for acquiring resources, locating production facilities, marketing goods and services, and establishing brand image. They seek total integration of global operations, try to make major decisions from a global perspective, and have top managers from many different countries.

Most MNCs still retain strong national identifications even while operating around the world. Is there any doubt in your mind that Wal-Mart and HP are "American" firms, whereas Nissan and Sony are "Japanese"? Most likely not, but that may not be the way their executives would like the firms viewed. And by the way, which company is really more American—the Indian giant Tata Group,

A global corporation or multinational corporation (MNC) has extensive international business dealings in many foreign countries.

A transnational corporation is an MNC that operates worldwide on a borderless basis.

which gets more than 50% of its revenues from North America, or IBM, which gets 65% of its revenues outside the United States?²⁴

III The actions of global corporations can be controversial at home and abroad.

What difference does a company's nationality really make? Does it matter to an American whether local jobs come from a domestic giant such as Verizon or a foreign one such as Honda?²⁵ What about the power global firms wield in the world economy? Is this a problem? The United Nations reports that multinationals hold one-third of the world's productive assets and control 70% of world trade. Revenues of Exxon/Mobil, for example, are equivalent to Egypt's GDP; Finland's budget is 20% less than the annual sales of its large multinational Nokia.²⁶ And how about what some call the **globalization gap**? This is where large multinationals gain disproportionately from the forces of globalization, versus smaller firms and many countries that do not.²⁷

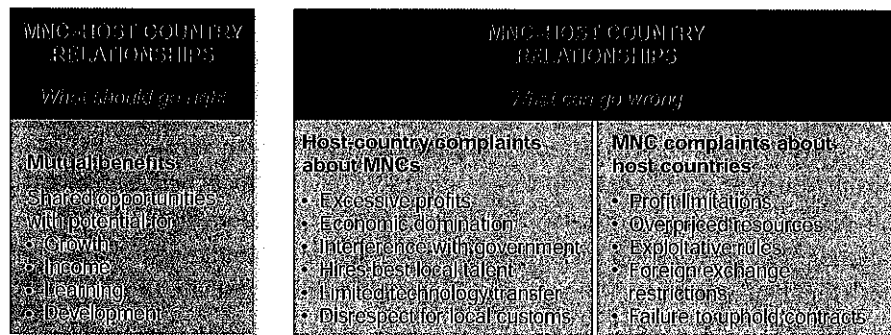
Global corporations and the countries that host their foreign operations should all benefit. But as Figure 17.2 shows, things can go both right and wrong in MNC-host country relationships. Although the economic power of global firms is undoubtedly good for business leaders and investors, it can be threatening to small and less-developed countries and their domestic industries.

The **globalization gap** is where large global firms gain disproportionately from the global economy versus smaller firms.

FIGURE 17.2

What Can Go Right and Wrong in Relationships Between Global Corporations and Their Host Countries?

When things go right, both the global corporation, or MNC, and its host country gain. The global firm gets profits or resources, and the host country often sees more jobs and employment opportunities, higher tax revenues, and useful technology transfers. But when things go wrong, each finds ways to blame the other.



MNCs may complain that a host country bars it from taking profits out of the country, overprices local resources, and imposes restrictive government rules. Host countries may accuse that an MNC hires the best local talent, fails to respect local customs, makes too much profit, and doesn't transfer really useful technology.²⁸ Another complaint is that MNCs use unfair practices, such as **below-cost pricing**, to drive local competitors out of business. This is one of the arguments in favor of *protectionism*, discussed earlier as the use of laws and practices to protect a country's domestic businesses from foreign competitors.

MNCs can also run into difficulties in their home or headquarter countries. If a multinational cuts local jobs and then moves or outsources the work to another country, local government and community leaders will quickly criticize the firm for its lack of social responsibility. After all, they will

say, shouldn't you be creating local jobs and building the local economy? Perhaps you might agree with this view. But can you see why business executives might disagree?

III Managers of global corporations face a variety of ethical challenges.

"Avon Products Says It Fired Four Executives Over Bribes" . . . "Mexico starts Investigation in Wal-Mart Bribery Case."²⁹ The ethical aspects of international business are often in the news, and sometimes the report involves outright **corruption**. This occurs when employees or representatives of MNCs resort to illegal practices such as bribes to further their business interests in foreign countries. The **Foreign Corrupt Practices Act (FCPA)** makes it illegal for U.S. firms and their representatives to engage in corrupt practices overseas. This prohibits them from paying or offering bribes or excessive commissions, including nonmonetary gifts, to foreign officials or employees of state-run companies in return for business favors.³⁰

Critics of the FCPA claim that it fails to recognize the realities of business as practiced in many foreign nations. They believe it puts U.S. companies at a competitive disadvantage because they can't offer the same "deals" as businesses from other nations—deals that the locals may regard as standard business practices. And, to some at least, the issues aren't always clear cut. An American executive, for example, says that payoffs are needed to get shipments through customs in Russia even though all legal taxes and tariffs are already paid. "We use customs brokers," he says, "and they build bribes into the invoice."³¹ What do you think? Should U.S. legal standards apply to American companies operating abroad? Or should they be allowed to do whatever is locally acceptable?

We noted earlier that even the most well-intentioned MNCs can end up in troublesome relationships with global suppliers. One risk is that the local firms are **sweatshops**, places in which employees work at low wages for long hours and in poor, even unsafe, conditions. A notorious example was the collapse of a building in Bangladesh that housed outsourcing suppliers to global clothing retailers. The tragedy killed over 1100 people and exposed unsafe buildings and sweatshop conditions in factories throughout the country. The local garment industry runs on workers, often female and illiterate, trying to shed lives of poverty. One says her workplace has blocked elevators, filthy tap water, and unclean overflowing toilets.³² The nonprofit Institute for Global Labour and Human Rights is dedicated to exposing sweatshops as part of its mission "to promote and defend human, women's and workers' rights in the global economy."³³

Another global business risk is working with contractors who use **child labor**, the full-time employment of children for work otherwise done by adults.³⁴ And, the facts are startling: 215 million child laborers worldwide and 115 million of them work in hazardous conditions.³⁵ As you might guess, factories employing children might be in a good position to offer low prices to foreign companies buying their products. Even if the practice is legal by local standards, does this justify doing business with such a place? One Apple audit discovered that three of its foreign contractors had used underage workers.³⁶ Steve Dowling, an Apple spokesperson, says the firm regularly audits suppliers "to make sure they comply with Apple's

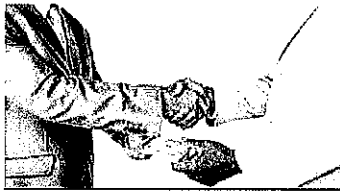
Corruption involves illegal practices to further one's business interests.

The **Foreign Corrupt Practices Act** makes it illegal for U.S. firms and their representatives to engage in corrupt practices overseas.

Sweatshops employ workers at very low wages, for long hours, and in poor working conditions.



Child labor is the full-time employment of children for work otherwise done by adults.



TRANSPARENCY INTERNATIONAL SEEKS A
WORLD FREE OF CORRUPTION AND BRIBES.

Facts to Consider

■ Corruption and Bribes Haunt Global Business

If you want a world free of corruption and bribes, you have a lot in common with the nonprofit activist organization Transparency International. Its mission is to "create change for a world free of corruption." The organization publishes regular surveys and reports on corruption and bribery around the world. Here are some recent data.

Corruption: Best and worst out of 178 countries in perceived public sector corruption. (Note: & = ties)

Best—Denmark, Finland, & New Zealand (#1), Sweden (#4), Singapore, (#5)

Worst—Afghanistan, North Korea, Somalia (# 174), Sudan (#173), Myanmar (#172)

In-Betweens—United States (#19), Costa Rica (#48), Italy (#72), India (#94), Vietnam (#123)

Bribery: Best and worst of 20 countries in likelihood of home-country firms' willingness to pay bribes abroad.

Best—Netherlands & Switzerland (#1), Belgium (#3), Germany & Japan (#4)

Worst—Russia (#28), China (#27), Mexico (#26), Indonesia (#25)

In Betweens—Canada (#6), United States (#10), Brazil (#14), Turkey (#19)

YOUR THOUGHTS?

What patterns do you detect in these data, if any? Does it surprise you that the United States didn't make the "best" lists? How would you differentiate between the terms "corruption" and "bribery" as they apply in international business?

strict standards" and that the firm also conducts "extensive training programs to educate workers about their right to a safe and respectful work environment."

III Planning and controlling are complicated in global corporations.

Setting goals, making plans, controlling results—all of these standard management functions can become quite complicated in the international arena. Picture a home office somewhere in the United States, say, Chicago, and foreign operations scattered in Asia, Africa, South America, and Europe. Planning and controlling must somehow span all locations, meeting both home office needs and those of foreign affiliates.

One planning issue in international business is **currency risk, or profit loss due to fluctuations in foreign exchange rates.** Companies such as McDonald's

and HP, for example, make a lot of sales abroad. These sales are in foreign currencies. But as exchange rates vary, the dollar value of sales revenues goes up and down and profits are affected. Companies have to plan for the potential positive and negative impacts of exchange rate fluctuations on their profits.

When the dollar is weak against the euro, it takes more dollars to buy one euro. This is bad for American consumers, who must pay more to buy European products. But it's good for European consumers, who pay less for American ones. A weak dollar is also good for American companies who make lots of sales in euros and then get more when exchanging them for dollars. But suppose the dollar

Currency risk is possible profit loss because of fluctuating exchange rates.

Scenario 1: Weak dollar

1 \$US = 0.75 euro

Euro sales = €100,000

U.S. take-home revenue = \$133,000

Scenario 2: Strong dollar

1 \$US = 1.25 euros

Euro sales = €100,000

U.S. take-home revenue = \$80,000

strengthens against the euro? Is this good or bad for firms with large sales in euro-zone countries? The boxed example shows that it's bad.

Global businesses must also deal with **political risk**, potential losses because of instability and political changes in foreign countries. The major threats of political risk today come from terrorism, civil wars, armed conflicts, shifting government systems through elections or forced takeovers, and new laws and economic policies. An example is the surprise nationalization of Bolivia's oil and gas industries as described in the earlier ethics check. Although such things can't be prevented, they can be anticipated to some extent by a planning technique called **political-risk analysis**. It tries to forecast the probability of disruptive events that can threaten the security of a foreign investment. Given the world we now live in, can you see the high stakes of such analysis?

Political risk is possible loss because of instability and political changes in foreign countries.

Political-risk analysis forecasts how political events may have an impact on foreign investments.

III Organizing can be difficult in global corporations.

Even after plans are in place, it isn't easy to organize for international operations. In the early stages of international activities, businesses often appoint someone or a specific unit to handle them. But as global business expands, a more complex arrangement is usually necessary.

One possible choice for organizing an MNC is the *global area structure* shown in Figure 17.3. It arranges production and sales functions into separate geographical units and puts top managers in charge—such as Area Manager Africa or Area Manager Europe. This allows business in major areas of the world to be run by executives with special local expertise.

Another organizing option is the *global product structure*, also shown in the figure. It gives worldwide responsibilities to product group managers who are assisted by area specialists who work as part of the corporate staff. These specialists provide expert guidance on the cultures, markets, and unique conditions of various countries or regions.

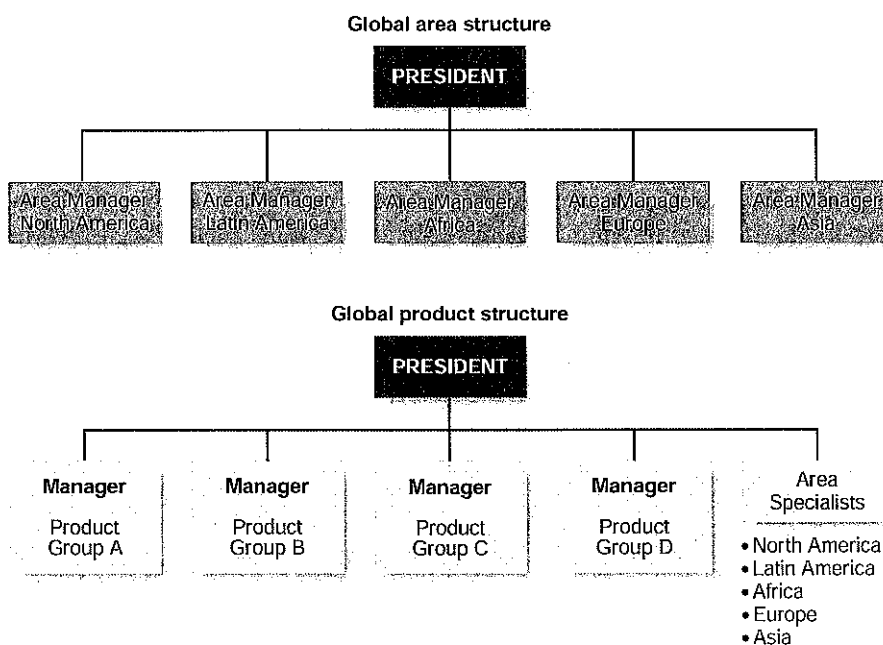


FIGURE 17.3
How Can Multinational Corporations Organize for Success in Their Global Operations?

When the international side of a business grows, the structure often gets complicated. One approach is a global area structure, which assigns senior managers to oversee all product operations in major parts of the world. Another is the global product structure, in which area specialists advise other senior managers on business practices in their parts of the world.

||| Leading is challenging in global corporations.

As executives in businesses and other types of organizations press forward with global initiatives, the challenges of leading diverse workforces and dealing with customers across national and cultural borders have to be mastered. Globalization and the growth of international businesses are creating needs for more **global managers**, ones aware of international developments and competent in working across cultures.³⁷ *The Wall Street Journal* says that global companies need managers who “understand different countries and cultures” and “intuitively understand the markets they are trying to penetrate.”³⁸

A truly global manager is always inquisitive and informed of international events and complexity in our ever-changing world, such as those featured throughout this book.³⁹ A truly global manager is also culturally sensitive and aware. And, a truly global manager is highly skilled in leadership competencies that travel well across cultural boundaries.

Some evidence-based findings on global leadership skills are shown in the following lists.⁴⁰ It turns out that universal facilitators of leadership success are things like being trustworthy, informed, communicative, and inspiring. Regardless of where they live and work, people tend to like leaders who give them confidence and are good with teamwork. But things like being a loner and acting irritable, uncooperative, and autocratic are viewed negatively across cultures. They are universal inhibitors of leadership success.

A **global manager** is culturally aware and informed on international affairs.

Universal Facilitators of Leadership Success >>>

- Acting trustworthy, just, honest
- Showing foresight, planning
- Being positive, dynamic, motivating
- Inspiring confidence
- Being informed and communicative
- Being a coordinator and team builder

Universal Inhibitors of Leadership Success >>>

- Being a loner
- Acting uncooperative
- Being irritable
- Acting autocratic

So now we come back to you. Are you willing to admit that the world isn't just for traveling anymore and to embrace it as a career opportunity? Is it possible that you might stand out to a potential employer as someone with the leadership skills to excel as a global manager?

||| Technology is a global game changer.

Just imagine what it's like for heads of global corporations and national governments. Already in this chapter we've described country controversies, ethics issues, and complexity for the management functions of planning, organizing, and controlling. These are important but “of the moment” challenges. The most adept executives handle these issues while crafting strategy for a future that may be



The New Digital Age: Reshaping the Future of People, Nations and Business
by Eric Schmidt and Jared Cohen

Manager's Library

“THERE IS A CANYON DIVIDING PEOPLE WHO UNDERSTAND TECHNOLOGY AND PEOPLE CHARGED WITH ADDRESSING THE WORLD’S TOUGHEST GEOPOLITICAL ISSUES. . . .”

When the executive chairman of Google, Eric Schmidt, visits North Korea and Myanmar, you know something has to be up. Were the visits business or diplomacy? A combination is the best answer. And if you read *The New Digital Age: Reshaping the Future of People, Nations and Business* (Knopf, 2013) by Schmidt and foreign relations expert Jared Cohen, you’ll understand why.

The book challenges all of us, but especially business and government leaders, to get on top of the “new digital age” of intense global connectivity driven by an ever-developing Internet. Right now, say the authors: “There is a canyon dividing people who understand technology and people charged with addressing the world’s toughest geopolitical issues, and no one has built a bridge.” In other words, leaders aren’t keeping up with what the rest of us are finding out about the utility of changing technology. Schmidt and Cohen believe it’s in everyone’s best interests to close this divide.

War and conflict—physical and in cyberspace, citizen journalists, high-tech gadgets and lifestyle apps, science and health, big data, digital manufacturing, and more are all at issues in a book that claims “technology is natural, people aren’t.” The authors point toward extreme planning challenges the new digital age poses for executives trying to do business around the world and for those who run or even try to conquer nations. “Authoritarian governments will find their newly connected populations more difficult to control, repress and influence,” say Schmidt and Cohen, “while democratic states will be forced to include many more voices (individuals, organizations and companies), in their affairs.”

REFLECT AND REACT

How is technological change affecting global firms like IBM, Nike, Samsung, and others? What do executives in multinationals have to gain and fear as technology keeps evolving? When the authors say “technology is neutral, but people aren’t,” what are the implications for you, for your organizations, and for your government? And when it comes to the “new digital age,” can politicians afford not to listen to what business executives have to say?

very different from the present. One of the most important considerations in this regard is technology and the implications of where it’s headed.

We tend to think of global business technology in communication terms—ease of linking a firm’s customers with overseas call centers, ease of staying in touch with global supply chains, or risk of losing privileged information and intellectual property through security breaches and outright theft. All such things are important. But there’s another, emerging side to technology that has important ramifications for global firms—the growth of digital manufacturing.

Companies like General Electric are building factories that run with lots of technology and a few highly skilled people. Entrepreneurs use similar technologies to start small firms that spin out customized products on demand and at low cost. *The Wall Street Journal* calls it a “new industrial revolution” that might fuel a resurgence of “Made in America” labels.⁴¹

The huge global outsourcer Nike, for example, has eliminated substantial waste and labor costs by making its Flyknit shoe with new digital manufacturing technology. A project consultant says: “It’s a hugely significant advance, not the least because, once you start doing things this way it obviously takes a lot of the labor cost out of the equation.”⁴² In other words, if Nike and others can build something quickly and efficiently using new technology at home, why take the risks of going abroad to find cheap labor?

STUDY GUIDE

Takeaway 17.2 What Are Global Corporations, and How Do They Work?

Terms to Define

Child labor

Corruption

Currency risk

Foreign Corrupt
Practices Act

Global corporation or
multinational
corporation (MNC)

Global manager

Globalization gap

Political risk

Political risk analysis

Sweatshop

Transnational
corporation

Rapid Review

- A global business or multinational corporation (MNC) has extensive operations in several foreign countries; a transnational corporation attempts to operate without national identity and with a worldwide strategy.
- Global firms benefit host countries by paying taxes, bringing in new technologies, and creating employment opportunities; they can also harm host countries by interfering with local government and politics, extracting excessive profits, and dominating the local economy.
- The Foreign Corrupt Practices Act prohibits representatives of U.S. international businesses from engaging in corrupt practices abroad.
- Planning and controlling global operations must take into account such things as currency risk and political risk in changing environmental conditions.
- Organizing for global operations often involves use of a global product structure or a global area structure.
- Leading global operations requires universal leadership skills and global managers who are capable of working in different cultures and countries.

Questions for Discussion

1. Should becoming a transnational corporation be the goal of all MNCs?
2. Is there anything that global firms and host governments can do to avoid conflicts and bad feelings with one another?
3. Are laws such as the Foreign Corrupt Practices Act unfair to American companies trying to compete around the world?

Be Sure You Can

- differentiate a multinational corporation from a transnational corporation
- list common host-country complaints and three home-country complaints about MNC operations
- explain the international business challenges of corruption, sweatshops, and child labor
- discuss the implications of political risk for global businesses
- differentiate the global area structure and global product structure
- list possible competencies of global managers

Career Situation: What Would You Do?

You've just read in the newspaper that one of your favorite brands of sports shoes is being investigated for being made in sweatshop conditions at factories in Asia. It really disturbs you, but the shoes are great. A student group on campus has a campaign to boycott the brand. Will you join the boycott, or not, and why? How effective are such consumer threats? Is it still too easy for global firms to get away with bad behaviors? If so, what can and should be done about it?



TestPrep 17

Answers to TestPrep questions can be found at the back of the book.

Multiple-Choice Questions

1. In addition to gaining new markets, businesses often go international in the search for _____.
 - (a) political risk
 - (b) protectionism
 - (c) lower labor costs
 - (d) most favored nation status
2. When boot-maker Rocky Brands bought 70% ownership of a manufacturing company in the Dominican Republic, Rocky was engaging in which form of international business?
 - (a) Import/export
 - (b) Licensing
 - (c) Foreign subsidiary
 - (d) Joint venture
3. When Limited Brands buys cotton in Egypt and has tops sewn from it in Sri Lanka according to designs made in Italy and then sells the tops at Victoria's Secret stores in the United States, this is a form of international business known as _____.
 - (a) licensing
 - (b) importing
 - (c) joint venturing
 - (d) global sourcing
4. When foreign investment creates new jobs in the U.S., this is a form of _____ that is welcomed by the local economy.
 - (a) globalization
 - (b) insourcing
 - (c) joint venturing
 - (d) licensing
5. When a Hong Kong firm makes an agreement with the Walt Disney Company to use the Disney logo and legally make jewelry in the shape of Disney cartoon characters, Disney is engaging in a form of international business known as _____.
 - (a) exporting
 - (b) licensing
 - (c) joint venturing
 - (d) franchising
6. One major difference between an international business and a transnational corporation is that the transnational tries to operate _____.
 - (a) without a strong national identity
 - (b) in at least six foreign countries
 - (c) with only domestic managers at the top
 - (d) without corruption
7. The Foreign Corrupt Practices Act makes it illegal for _____.
 - (a) U.S. businesses to work with subcontractors running foreign sweatshop operations
 - (b) foreign businesses to pay bribes to U.S. government officials
 - (c) U.S. businesses to make "payoffs" abroad to gain international business contracts
 - (d) foreign businesses to steal intellectual property from U.S. firms operating in their countries
8. The World Trade Organization, or WTO, would most likely become involved in disputes between countries over _____.
 - (a) exchange rates
 - (b) ethnocentrism
 - (c) nationalisation
 - (d) tariffs and protectionism
9. The athletic footwear maker New Balance discovered that exact copies of its running shoe designs were on sale in China under the name "New Barlun." This is an example of a/an _____ problem in international business.
 - (a) most favored nation
 - (b) global strategic alliance
 - (c) joint venture
 - (d) intellectual property rights

- 10.** When the profits of large international businesses are disproportionately high relative to those of smaller firms and even the economies of some countries, this is called _____.
- return on risk for business investment
 - the globalization gap
 - protectionism
 - most favored nations status
- 11.** If a government seizes all foreign assets of global firms operating in the country, the loss to foreign firms is considered a _____ risk of international business.
- franchise
 - political
 - currency
 - corruption
- 12.** Who gains most when the dollar weakens versus a foreign currency such as the Brazilian real?
- American consumers of Brazilian products
 - Brazilian firms selling products in Europe
 - American firms selling products in Brazil
 - Brazilian consumers of European products
- 13.** Which of the following is identified by researchers as a universal inhibitor of leadership success across cultures?
- Inspiring confidence
 - Acting autocratic
 - Being a good planner
 - Acting trustworthy
- 14.** If an international business firm has separate vice presidents in charge of its Asian, African, and European divisions, it is most likely using a global _____ structure.
- product
 - functional
 - area
 - matrix
- 15.** Which is the best definition of a truly "global manager?"
- A manager who is competent working across cultures
 - A manager who travels internationally on business at least once a year
 - A manager who lives and works in a foreign country
 - A manager who is employed by a transnational corporation

Short-Response Questions

- 16.** What is the difference between a joint venture and a wholly owned subsidiary?
- 17.** List three reasons why host countries sometimes complain about MNCs.
- 18.** What does it mean in an international business sense if a U.S. senator says she favors "protectionism"?
- 19.** What is the difference between currency risk and political risk in international business?

Integration and Application Question

- 20.** Picture yourself sitting in a discussion group at the local bookstore and proudly signing copies of your newly published book, *Business Transitions in the New Global Economy*. A book buyer invites a comment from you by stating: "I am interested in your point regarding the emergence of transnational corporations. But, try as I might, a company like Ford or Procter & Gamble will always be 'as American as Apple pie' for me."

Questions: How would you respond in a way that both (a) clarifies the difference between a multinational and a transnational corporation, and (b) explains reasons why Ford or P&G may wish not to operate as or be viewed as "American" companies?

BUILD MARKETABLE SKILLS
DO A CASE ANALYSIS
GET AND STAY INFORMED

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*Cultures are different... let
 sports open your window to the
 view.*

■ TEAM PROJECT 17: Globalization Pros and Cons

*Coins have two sides... getting
 a handle on globalization may
 be harder than you think.*

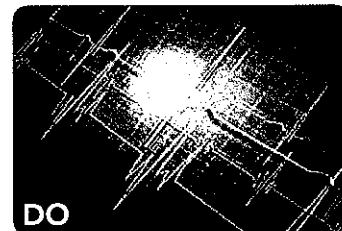
Many
 learning
 resources are
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 of the book and
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■ CHAPTER 17 CASE SNAPSHOT:

**Harley-Davidson—Style and Strategy with a Global Reach/
 Sidebar on NOT Made in China**

Harley-Davidson is an American success story. It was started in 1903 when two friends since boyhood, William Harley and Arthur Davidson, decided to design a motorized bicycle in a machine shop in Milwaukee, Wisconsin. The Harley-Davidson brand was born when the prototype bike was used to compete in a 1904 motorcycle race. Harley now designs, manufactures, and sells heavyweight motorcycles in the United States, Canada, Europe, and Asia. After facing a near-death experience from global competition some years ago, the firm has roared back to reap profits and position itself for strong global growth.



DO

A CASE ANALYSIS.
 STRENGTHEN YOUR
 CRITICAL THINKING!

Dig into this **Hot Topic**

■ GOOD IDEA OR NOT? Avoid China problems by reshoring our manufacturing

If you were a manufacturer in days past you went to China, at least as a first stop on your global scouting trip. But things have changed a bit. A San Diego-based CEO says: "Now people are trying to come back."

Why so?

LightSaver Technologies tried for two years to get things done in China. Now its work is back in California. CEO Jerry Anderson says China lost its allure: "It's probably 30 percent cheaper to manufacture in China. But factor in shipping and all the other B.S. that you have to endure."

Transportation costs and time are up for goods moved from China to the U.S. and other world markets. Labor costs are up; rising about 20% a year. Business risks in China, if not up, are at least more visible. Theft of intellectual property is a problem. One small manufacturer says: "They're infamous over there for knocking [products] off." Poor labor standards and work practices are a problem. Just ask Apple CEO Tim Cook about negative publicity over its use of China-based manufacturing.

Final Take What's a manufacturing executive to do? The *Economist* says China "is still a manufacturing power." With super-efficient plants and supply chains it remains a bargain in labor costs. So, are you on the reshoring side or the offshoring side of the issue? What facts are available to support or deny your position? Think of things from a consumer's perspective. If you can buy a child's toy made in China for \$8.00, will you be willing to pay \$12.00 so that it could be labeled "Made in America"? Should more of America's businesses, large and small, say "Not worth the trouble!" when Chinese manufacturers come calling with offers?



AND STAY INFORMED.
 MAKE YOURSELF
 VALUABLE!