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Globalization, internationalization, and cross-border activities are part of the fabric of modern business. Managers are continually pressured to account for the challenges and opportunities that exist in a twenty-four-hour-a-day, boundary-less competitive environment. In this world of hyper-competition, managers can easily get caught focusing only on the most immediate elements of globalization, while losing sight of longer-term developments. Authors and consultants of all stripes continually offer the “next breakthrough idea” on how to profit in today’s world marketplaces, providing quick solutions to managers’ most obvious difficulties.

Further, industrial globalization affects individuals and companies in multiple ways. Articles in the popular press often discuss trade protection, “buy American” campaigns, and industrial subsidies as either good or bad for the US economy. But these are complex issues, and making changes that benefit some people or companies are likely to have negative ramifications for others. The forces of international business, and our responses to them, are not obvious, and are certainly not consistent.



However, international business is not new, even though it creates new challenges for businesses every day. The core conditions underlying international business have been with us for decades. While trends and imperatives come and go, the fundamentals remain fairly consistent.

This article describes some perspectives on the foundations of international business. It will suggest that while international business is always changing and impacts our lives in many different ways, certain perspectives can help us frame these dynamics. The article includes discussion of managerial tools available for making better business decisions in the global business environment.

China's Dramatic Changes

For some time, the hottest topic in international business is the increasing impact of China's business activity on the world economy. China's growth has been unprecedented in modern times, averaging nearly 10% annual GDP expansion over the last three decades. China's economy recently passed Germany and Japan to become the second largest in the world. Along with this economic growth has come amazing and rapid social and political development. Cities up and down China's eastern seaboard, especially from Hong Kong and Guangzhou to Beijing, have become as modern as those found in the west.

China's substantial economic growth has impacted the country in many ways. There is a rapidly developing middle class in China. The percentage of the population living under the poverty line has decreased dramatically. Infrastructure spending in a range of cities is measured in hundreds of billions of dollars. All of these improvements were proudly put on display at the 2008 Olympic Games, held in Beijing.

While the country still suffers from significant problems, such as human rights violations, poor intellectual property protection, restrictive currency policies, and loose environmental protections, China is unrecognizable from its former self, in the year 1978, when Deng Xiaoping ended the "Great Leap Forward" and allowed market reforms to begin.

For Americans, China's economic rise has been seen as the cause of dramatic decreases in the real prices of a wide range of goods, allowing families of all incomes to stretch their dollars, thus sustaining steady increases in their own standard of living. Companies selling products as basic as t-shirts, and as advanced as MRI equipment, have driven down costs by tapping into the vast and willing labor pool available in China. Their efficiency has been, in part, passed on to consumers in the form of lower costs.

But China was not always the darling of consumers looking for low prices. In earlier decades, Americans looked to Japan for cheap goods. During the 1960s and early part of the 1970s, Japan's economy was rising from the destruction of World War II through a variety of initiatives, including close interactions between Japanese businesses and government, and major investment from America (just like modern China). The "Japanese, post-war

economic miracle” was spurred-on largely through liberalized exports to the West. Japan experienced double-digit growth in GDP throughout these years and into the 1980s.

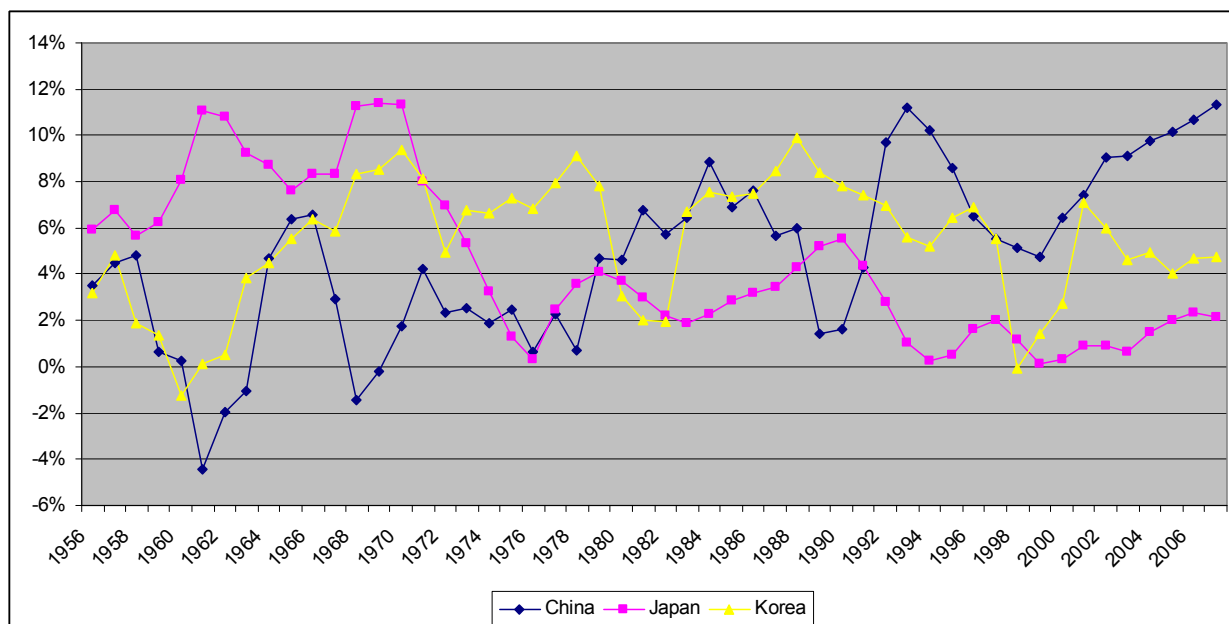
Rapid development of Japan’s economy, paradoxically, created challenges to the economic advantages that supported its success: in particular, the economic growth led to wage inflation. At the time, companies of all national origins operating in Japan saw costs rise as its people and companies worked their way out of the economic disaster created by its then-recent political history. Through hard work, experience, and learning, the Japanese companies became much more proficient in their production. They utilized their workers’ greater skills to develop and produce superior goods. As Japanese companies made more money, their workers demanded better pay. This outcome was to be expected.

Individuals who drive growth want to participate in that success through a better standard of living. As individuals work hard and see their efforts contribute to successful ventures, their own education and industrial skills improve, justifying higher salaries. By the middle of the 1970s, Japan was no longer a source for low-cost labor.

Table

Growth Rate of Real GDP per capita (Constant Prices)

Three-Year Trailing Average



Note. Data adapted from “*Penn World Table Version 6.1*,” by Heston, A., Summers, R., & Aten, B., 2002, Center for International Comparisons at the University of Pennsylvania (CICUP) and the International Monetary Fund. Retrieved January 4, 2009, from http://pwt.econ.upenn.edu/php_site/pwt61_form.php



As costs rose in Japan, companies had to look elsewhere for lower labor rates. This gave birth to the “Little Tigers,” the name given to the economies of Hong Kong, Singapore, South Korea, and Taiwan. Each of these countries used a similar export-driven economic model to improve their population’s standard of living and education. Their initial successes were created by the availability of low-cost labor and export-friendly governmental policies (just like in Japan). These countries enjoyed decades of sustained growth, growth which continues to this day. They are now regarded as leading competitors in the world economy, but no longer as sources of low-cost labor (just like Japan).

China is now moving through the same pattern. While its enormous population will elongate the time cycle, the most developed areas (generally, cities within 100 miles of the Pacific Ocean) have experienced telling signs, such as wage inflation, growing disparities between rich and poor, and rapid job-hopping by young professionals.

If history holds true, there is little doubt that someday—say, within a couple of decades—China will no longer be a low-cost country. Companies will have to find new sources of cheap labor, friendly regulatory standards, and willing political officials hungry for foreign investment.

China’s Effect on the U.S.

The rise of China as an economic power has created great misgivings on the part of Americans and American companies. Innumerable articles have been written on the potential impact of Chinese companies, and the country’s labor force, on the world economy. As consumers, we are simultaneously thrilled by the low prices we pay for goods originating from China, and cynical of poor quality goods (e.g., shoddy tires), and abuses of health regulations (e.g., lead paint in children’s toys, chemicals in baby’s milk), in products that come from Chinese companies.

And China is just one example. India is regarded as an increasingly attractive source of service professionals. Indian doctors now analyze X-rays of patients in the five minutes between the digital imaging and the time it takes to get back to an examination room, even though the patient is in the U.S. Indian accountants do our taxes, even though we submit receipts and forms to the accountant on Main Street. And the fastest growing IT consultancies are all based in India. Brazil, Russia, and many Central European countries are similarly flexing their economic muscles. In short, the hegemony of the U.S. economy is decreasing on a daily basis.

How do we, as individuals, react to these tectonic shifts, which move at seemingly glacial speeds, but end up reshaping the landscape of international business? Are the continual changes good or bad for the competitiveness of any given country? These moves cause relocations in business activities, such as the exodus of manufacturing businesses from the

U.S., to a variety of countries in Asia. Does this help or hinder a country's economy and the livelihoods of the people living there? Generally, how should we think of globalization?

The answer depends on your perspective.

Let's take a fictional case. Consider "Thomas," a young manager at a mid-size electronic controls provider. He has been working at the firm for about fifteen years, ever since he graduated from college. Thomas and his wife have two young children, and to support them he is looking forward to a long and successful career in his industry, and, hopefully, at his current firm. How should Thomas react to the growing power of China and other foreign economic powers?

In responding, we must consider that Thomas participates in the global economy in several different ways. We can view Thomas as a consumer, an employee, a manager, and a shareholder.

As a consumer, there is no question that Thomas has benefitted from the broadening of the global economy. A good portion of Thomas's income will go toward covering typical household expenses. He will purchase many items from retailers such as Wal-Mart, Home Depot, and Best Buy. He will be attracted to these firms, in part, because they offer low prices on the things he needs.

These companies are successful at providing attractive prices because they are extremely proficient at working with their suppliers to drive down costs. In fact, Wal-Mart's ability to provide lower-income families access to a variety of goods at great prices has been credited with keeping inflation rates low for the last couple of decades. It is able to do so because of its constant mantra to sell at the lowest possible price. These efforts have necessitated a similar focus on cost by other firms selling goods ranging from toys, to electronics, to groceries, as they strive to remain profitable.

Many of the cost reductions come from productivity improvements throughout the supply chain. Wal-Mart can lower its prices only if its suppliers can lower theirs. Wal-Mart has a well-earned reputation of being tough on its suppliers in price negotiations. To remain on Wal-Mart's shelves, suppliers themselves must find ways to become more efficient. This often means relocating manufacturing activities to lower-cost countries, such as China.

Thomas is able to pay much lower prices for everyday goods because of globalization. As a consumer, these shifts are very much to his benefit.

At work, things are a bit more complicated for Thomas. His firm is likely to experience some of the same pricing pressures from their customers as Wal-Mart exerts on its suppliers. The march toward cost efficiency is widespread. The upper management team at Thomas's employer will also be constantly on the lookout for ways to extract more from their available resources (including time, expertise and capital).

As an employee, Thomas should be concerned that the world-wide labor market is continually becoming more open. Amazing advances in communications technologies and



infrastructures have made interactions among people located across the globe extraordinarily easy. These technologies provide access to the often well-trained and always less-expensive pools of talent in areas such as India and Central Europe. The shifts, even in “white-collar” jobs, due to outsourcing and off-shoring, are well documented.

On the other hand, as a manager Thomas might feel pressure to engage alternative resources, in order to meet his own budgets and projections. For instance, imagine that Thomas is responsible for providing engineering services to the clients of his employer. Should he take advantage of the engineers in India, who often demand wages as low as one-third of those in the U.S.? If Thomas bears the burden of making his numbers, he most likely should consider all available options.

Individual Value

Jeffrey Immelt (CEO, General Electric) provided insight into these kinds of dynamics in a response to a question posed during a speech in March, 2004, at Wisconsin’s Marquette University. The questioner pointedly asked about the impact of offshoring on G.E.’s local employees. Mr. Immelt responded with a question of his own: should he consider G.E. a U.S. company that happened to conduct business in other parts of the world, or a global company which happened to be headquartered in the U.S.? In answering, Mr. Immelt said it was necessary to remember that the majority of G.E.’s revenues, earnings, and employees were located outside of the U.S., making the latter position far more believable. While GE was primarily a U.S.-based company in past decades, the company’s present and future are based on the world economy.

Two observations filled-out his wise and thoughtful response. The first, Mr. Immelt mentioned was that he had to value created by GE’s employees in other parts of the world as equal to those within the United States. Regardless of their nationality, each employee contributes to the success of the corporation. Second, people in other countries have the same motivations as people here in the U.S.: to get a good job, create a nice life for their families, and provide opportunities for their children. People outside the U.S. are not maliciously trying to take jobs from Americans (whom they depend on, as customers for the goods and services produced), but trying to create jobs for themselves (just like Americans).

Thus, Thomas is likely to be conflicted when considering globalization in terms of his employment. On one hand, he might be fearful that some day his job could be relocated to another country. On the other, he might explore opportunities to utilize human resources in other countries as he works toward the profitability goals set for him by his superiors.

Last, Thomas might consider dynamics arising from globalization as a shareholder. After ten years at the firm, Thomas is likely to have invested in a retirement package consisting of stocks in both his own company and other firms. From this perspective, Thomas is likely to be a pragmatist.

Shareholders are typically most interested in the financial returns generated by management teams at the firms in which they have invested. As an owner, Thomas would expect the firms in which he has placed his money to perform the best they can, while abiding by the best practices in legal, regulatory, and environmental concerns. Sentimentality is rarely a primary factor in investment decisions. If the best place for business activities is in the U.S., then so be it. However, if utilizing overseas assets helps the firm survive and thrive, then foreign assets should be utilized. The decision-making will be straightforward.

Business Conditions

To this point, we have only considered the possible perspectives on international business that may be held by a single person at a single point in time (individuals change their opinions over time). The number of possibilities gets much larger once we consider more than just one individual. For instance, Thomas probably works with lots of people, each of whom has their own perspective on international business. His company likely works with suppliers and customers around the world, which have their own employees, who have individual opinions and biases. His company likely complies with international regulations and trade laws, which are impacted by the opinions of foreign government officials, etc.

The big idea is that there are rarely views on international business that can be called universal. This must impact how managers make decisions, select among alternatives, and craft plans of action. It is unwise to assume that practices which are acceptable in one place and time will be similarly accepted in other situations. What one person may view as good business may be illogical/illegal/unethical to another.

Acknowledging the variety of perspectives on globalization is useful in explaining the apparent confusion on the subject evident in the business press. Articles on the front page of a newspaper may celebrate a firm's receiving great financial returns, achieved through an efficient global supply chain; while a concurrent magazine's cover story may attack the "human costs" associated with factory closings, or other disruptions caused by globalization. Which one is right? Both of these views could be accurate, depending on you look at the situation.

The ideas that: globalization is a constantly changing phenomenon, and a variety of perspectives may be used to evaluate the impact of globalization, provide meaningful insights into the management of international business activities. The starting point for these insights is that global managers must relax their assumptions about how business is conducted in other parts of the world. Each country, or geographic region, has its own economic conditions, and people have differing opinions on the appropriateness of various international business activities.

Simply being aware of dynamic global business conditions and multiple perspectives is not helpful for individual managers who are faced with specific problems or opportunities. Awareness does not provide any assistance in deciding what to do about these things. For



more specific analysis, managers may turn to theories and models developed by international business scholars over the past several decades. These types of analysis, and many others like them, help managers make better decisions, when faced with opportunities and challenges in the international business environment. Issues of globalization are often so complex that responses based on “gut feel” or “instinct” are highly likely to be misguided, and even dangerous to a firm’s long-term outlook.

Economic Conditions

A great deal of work has been directed at explaining the variety of economic conditions that exist in various countries, and economic interactions among countries. The former focuses on topics such as economic and infrastructure development, industrial and labor policies, and environmental protection. The latter examines trade policies and regulations, the impact of non-governmental organizations (such as the World Trade Organization or the International Monetary Fund), and the relationship between conflict and cross-border business activities, among others.

While these are big topics, some models in these subject areas lead to direct observations. For example, Porter’s (1990) “Diamond Model” considers how firms might participate in clusters of industrial activity. The starting point for this model is the observation that industry participants have a tendency to co-locate: software firms in Silicon Valley, carpet companies in Dalton, GA, breakfast cereal companies in Battle Creek, MI, and mutual funds in Boston, MA, are a few examples. The model’s four components suggest how governments can encourage the development of industrial activities in their regions and how firms can best utilize the resources available in clusters.

Political Conditions

Governments shape the rules of the game for business. They dictate regulations on employment, safety, environmental impact, and competition, among many other issues. They establish tax policies, act as adjudicators in disagreements among firms, implement monetary and fiscal policy, manage relationships with other countries, and are enormous employers. The impact of government on business activities cannot be overestimated. Businesses, of course, recognize the importance of governmental bodies, evidenced by the billions of dollars they spend every year on grassroots campaigns, lobbying, political actions committees, and other political activities.

Of the many ways that managers can understand their political environments, one is by measuring governmental pressures on business activities, through “political risk,” or the risk that changes in policies will impact business activities or performance. Baron’s idea of an “integrated strategy” is one framework for considering how businesses interact with governments, both as responders to new initiatives as well as participants in the political process (Baron, 1995a; 1995b; 1997). It recognizes that firms are not powerless in

managing political conditions, and makes suggestions to managers on how to influence governmental initiatives.

The importance of focusing on political risk has been made plain by recent events in the Middle East, and Libya in particular. Libya is an oil-rich country, which has attracted billions of dollars worth of investment by Western oil countries. Those firms were able to operate in relative peace even while Moammar Gaddafi presided over the country with an iron fist, enriching himself and his family along the way. Once the populist revolt began, with the goal of installing a more representative/democratic government, business conditions actually became much worse for these multinational coproations. Why? Because things became uncertain.

Cultural Dynamics

Culture influences how individuals experience the world around them. In business, culture impacts factors such as work/life balance, proper management techniques, compensation expectations, and the participation of firms in society.

There are two broad ways of measuring culture. The first is a top-down approach to observing characteristics of large groups, in an effort to distinguish them from other large groups. We often associate certain characteristics with people of particular citizenships, nationalities, or races, and then assume that the people in the group will also have those characteristics. Individual behaviors will be affected by other factors, such as gender, age, and education, and by inclusion in multiple groups by combining the many possible combinations of the factors that differentiate among groups.

The second, a bottom-up approach, is a way of measuring culture by observing the values of individuals, and then creating groups among individuals with shared values. This often results in groups of people who share religions, political affiliations, or recreational interests (e.g., Yankees fans), with less regard for a person's inherited characteristics.

In either case, the study of culture helps managers discern better ways of managing and leading the people within their organizations. For this purpose, managers should have a framework for understanding how people are different. A popular model in the top-down perspective on culture is Hofstede's (1983) four "dimensions of culture." This framework was constructed by analyzing data from over 100,000 people in over forty countries, and provides broad characterizations of people from different countries. On the other hand, bottom-up views on culture can be achieved through appreciation of differences among individuals. For instance, personality surveys, such as the Minnesota Multiphasic Personality Inventory (MMPI), can be used to construct a profile of the people within an organization. Tools such as these can give managers indications of the management techniques and policies that are most likely to be productive, and how those techniques and policies would have to be modified when implemented at different locations around the world.



Conclusion

Understanding international business dynamics depends on an appreciation of differences among people, places, and perspectives. (If everyone was the same in every country, the term “international” would be irrelevant.) While the headlines will change on a daily basis, the challenges of international business rest on three tenets: countries are continually evolving, individuals participate in the international economy in a variety of ways, and international business conditions are in a constant state of change. These differences make the global markets dynamic, challenging, and fascinating.

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