14. International business for the entrepreneur

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Introduction

In Mastuj, a remote area in the Chitral district of Pakistan's North West Frontier Province, a young, recently divorced woman with three children feared that she would not be able to make ends meet. Tradition held that women should not work outside the home, further complicating her efforts to generate income.

Nevertheless, in 1998, she applied to the Aga Khan Rural Support Programme (AKRSP) for training in sewing. Soon after her course, she took out an AKRSP loan, which included business training, to buy a sewing machine. She then set up a business stitching and selling ready-made clothes.

As with all AKAM loans, the credit package included two types of micro-insurance: Rs. 100 (USD 1.60) for loan insurance that paid the outstanding balance in case of her death or permanent disability, and another policy that would ensure a Rs. 10,000 benefit for funeral-related costs in case of her accidental death. The micro-insurance shielded the woman's children from debt should she have suffered death or disability.

Exhibit 48: The credit package included two types of micro-insurance that has shielded the woman's children from debt should she have suffered debt and injury.

She has taken several other loans for machinery and material. Each time she has paid back her loan in full and on time. Her monthly income has risen over six-fold from Rs 1000 (USD 16) to Rs. 7000 (USD 120) in four years (2000-2004). She has been able to send her three children to a private school, extend her one room house, and set up a shop near the home. Hygiene and health have improved thanks to better food and the installation of a proper toilet. As of 2004, she had saved over Rs 30,000 (USD 500).

Perhaps most importantly, she has gone beyond subsistence to help those who are less fortunate than herself. She has hired six employees and conducts sewing classes for other women in the community. In 2004, in recognition of her efforts, Ms. Shahira was the recipient of the top prize in the United Nations Global Entrepreneurship Award for Pakistan.

For Ms. Shahira, globalization can play an important role in her business. With the success of her sewing company in her home country, Pakistan, she now has the opportunity to expand into new markets, partner with another company, and continue to grow her company as a whole. Conversely, globalization has negative implications for her company as well that include increased competition, and the risk of cultural issues that would lead to her company not succeeding in a new market. As an up-and-coming entrepreneur, Ms. Shahira must take into consideration all factors of globalization as she continues to operate her business.

For more information about this case, and others like it, visit the Aga Khan Agency for Microfinance website http://www.akdn.org.

Globalization: opportunities and threats to developing country business

To succeed in business today, it is critical to understand the changing global business world and the environment in which a business operates. Not only are entrepreneurs faced with the internal factors affecting their business, they must also understand the external environment in which they operate.

In the United States and Western Europe, globalization has been highly controversial and sparked protests driven by fears of outsourcing jobs, ceding authority to international organizations and declining labor and environmental standards. Views of globalization in lower income countries, however, are more positive. A recent Pew survey found that there was more enthusiasm for foreign trade and investment in less industrialized countries than in industrialized ones. In sub-Saharan Africa, 56% of respondents thought, "growing global trade and business ties are very good for my country (Dollar, 2003)." In developing countries in Asia, 37% had a positive view of globalization, while only 28% of respondents in the United States and Western Europe had such a view (Dollar, 2003). This section discusses the concept of globalization and its positive and negative implications for developing country business.

This chapter will utilize examples of large corporations, as these firms incorporate all necessary aspects required to run a successful business.

What is globalization?

Globalization is difficult to define because it has many dimensions—economic, political, cultural and environmental. The focus here is on the economic dimension of globalization. Economic globalization refers to the "quickly rising share of economic activity in the world [that] seems to be taking place between people in different countries" (World Bank Briefing Paper, 2001). More specifically, economic globalization is the result of the increasing integration of economies around the world, particularly through trade and financial flows and the movement of people and knowledge across international borders (IMF Issue Brief, 2000).

Case: United States Domestic Automaker, Ford

Nowhere are the effects of globalization seen more drastically than in the automobile industry, especially for the United States "Big 3" automakers: General Motors, Chrysler, and Ford.

Ford's history dates back to the Model T created by Henry Ford, with the goal of building a car for every family. Today, Ford is in dire competition with not only their domestic competitors, but also now foreign car manufacturers such as Toyota, Volkswagen and Hyundai.

At the current pace, the automotive market is approaching a 50/50 split between United States and overseas-based control of the US market. As a result, Ford is challenged to constantly reevaluate and revamp its market strategy. This is evident, as Ford decided that it was more cost-effective to buy existing networks than to start from scratch, by bringing Jaguar, Volvo, Mazda, Aston Martin and Land Rover under its control. However, Ford has recently decided to sell its stake in both Jaguar and Land Rover to the Indian automaker, Tata, and may divest other divisions as well.

Today, Ford faces a number of important questions. As the globalization of the auto industry continues, how should Ford market its vehicles? What target markets should Ford appeal to? How can it continue to improve production and quality and adhere to the needs of even more demanding customers? And, how should Ford position itself, as a company, in the face of formidable competition?

While the future of Ford is uncertain, one thing is clear, globalization will continue to affect the way domestic and foreign companies do business.

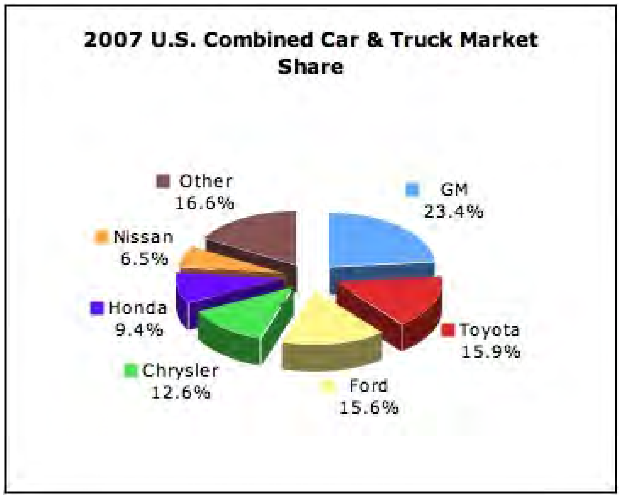

Exhibit 49: Global Market Share, 2007-2008 (Edmunds.com, 2007)As this figure suggests, the "Big Three" must adapt to changes in the market and globalization factors to remain key players in the automotive market. At one point in 2007, for the first time in history, US automaker's share of their home market fell below 50 per cent.

Elements of economic globalization

The growth in cross-border economic activities takes five principal forms: (1) international trade; (2) foreign direct investment; (3) capital market flows; (4) migration (movement of labor); and (5) diffusion of technology (Stiglitz, 2003).

International yrade: An increasing share of spending on goods and services is devoted to imports and an increasing share of what countries produce is sold as exports. Between 1990 and 2001, the percentage of exports and imports in total economic output (GDP) rose from 32.3 per cent to 37.9 per cent in industrialized countries, and from 33.8 per cent to 48.9 per cent in low and middle-income countries (World Briefing Paper, 2001). In the 1980s, about 20 per cent of industrialized countries' exports went to less industrialized countries; today, this share has risen to about 25 per cent, and it appears likely to exceed 33 per cent by 2010 (Qureshi, 1996).

The importance of International trade lies at the root of a country's economy. In the constant changing business market, countries are now more interdependent than ever on their partners for exporting, importing, thereby keeping the home country's economy afloat and healthy. For example, China's economy is heavily dependent on the exportation of goods to the United States, and the United States customer base who will buy these products.

Foreign Direct Investment (FDI): According to the United Nations, FDI is defined as "investment made to acquire lasting interest in enterprises operating outside of the economy of the investor".

Direct investment in constructing production facilities, is distinguished from portfolio investment, which can take the form of short-term capital flows (e.g. loans), or long-term capital flows (e.g. bonds) (Stiglitz, 2003). Since 1980, global flows of foreign direct investment have more than doubled relative to GDP (World Briefing Paper, 2001).

Capital market flows: In many countries, particularly in the developed world, investors have increasingly diversified their portfolios to include foreign financial assets, such as international bonds, stocks or mutual funds, and borrowers have increasingly turned to foreign sources of funds (World Briefing, Paper, 2001). Capital market flows also include remittances from migration, which typically flow from industrialized to less industrialized countries. In essence, the entrepreneur has a number of sources for funding a business.

Migration: Whether it is physicians who emigrate from India and Pakistan to Great Britain or seasonal farm workers emigrating from Mexico to the United States, labor is increasingly mobile. Migration can benefit developing economies when migrants who acquired education and know-how abroad return home to establish new enterprises. However, migration can also hurt the economy through "brain drain", the loss of skilled workers who are essential for economic growth (Stiglitz, 2003).

Diffusion of technology: Innovations in telecommunications, information technology, and computing have lowered communication costs and facilitated the cross-border flow of ideas, including technical knowledge as well as more fundamental concepts such as democracy and free markets (Stiglitz, 2003). The rapid growth and adoption of information technology, however, is not evenly distributed around the world—this gap between the information technology is often referred to as the "digital divide".

As a result, for less industrialized countries this means it is more difficult to advance their businesses without the technical system and knowledge in place such as the Internet, data tracking, and technical resources already existing in many industrialized countries.

Negative effects of globalization for developing country business

Critics of global economic integration warn that (Watkins, 2002, Yusuf, 2001):

- the growth of international trade is exacerbating income inequalities, both between and within industrialized and less industrialized nations
- global commerce is increasingly dominated by transnational corporations which seek to maximize profits without regard for the development needs of individual countries or the local populations
- protectionist policies in industrialized countries prevent many producers in the Third World from accessing export markets;
- the volume and volatility of capital flows increases the risks of banking and currency crises, especially in countries with weak financial institutions
- competition among developing countries to attract foreign investment leads to a "race to the bottom" in which countries dangerously lower environmental standards
- cultural uniqueness is lost in favor of homogenization and a "universal culture" that draws heavily from American culture

Critics of economic integration often point to Latin America as an example where increased openness to international trade had a negative economic effect. Many governments in Latin America (e.g. Peru) liberalized imports far more rapidly than in other regions. In much of Latin America, import liberalization has been credited with increasing the number of people living below the USD $1 a day poverty line and has perpetuated already existing inequalities (Watkins, 2002).

Positive effects of globalization for developing country business

Conversely, globalization can create new opportunities, new ideas, and open new markets that an entrepreneur may have not had in their home country. As a result, there are a number of positives associated with globalization:

- it creates greater opportunities for firms in less industrialized countries to tap into more and larger markets around the world
- this can lead to more access to capital flows, technology, human capital, cheaper imports and larger export markets
- it allows businesses in less industrialized countries to become part of international production networks and supply chains that are the main conduits of trade

For example, the experience of the East Asian economies demonstrates the positive effect of globalization on economic growth and shows that at least under some circumstances globalization decreases poverty. The spectacular growth in East Asia, which increased GDP per capita by eightfold and raised millions of people out of poverty, was based largely on globalization—export-led growth and closing the technology gap with industrialized countries (Stiglitz, 2003). Generally, economies that globalize have higher growth rates than non-globalizers (Bhagwati and Srinivasan, 2002).

Also, the role of developing country firms in the value chain is becoming increasingly sophisticated as these firms expand beyond manufacturing into services. For example, it is now commonplace for businesses in industrialized countries to outsource functions such as data processing, customer service and reading x-rays to India and other less industrialized countries (Bhagwati et al, 2004). Advanced telecommunications and the Internet are facilitating the transfer of these service jobs from industrialized to less industrialized and making it easier and cheaper for less industrialized country firms to enter global markets. In addition to bringing in capital, outsourcing helps prevent "brain drain" because skilled workers may choose to remain in their home country rather than having to migrate to an industrialized country to find work.

Further, some of the allegations made by critics of globalization are very much in dispute—for example, that globalization necessarily leads to growing income inequality or harm to the environment. While there are some countries in which economic integration has led to increased inequality—China, for instance—there is no worldwide trend (Dollar, 2003). With regard to the environment, international trade and foreign direct investment can provide less industrialized countries with the incentive to adopt, and the access to, new technologies that may be more ecologically sound (World Bank Briefing Paper, 2001). Transnational corporations may also help the environment by exporting higher standards and best practices to less industrialized countries.

C.K. Prahalad and Stuart L. Hart have suggested that the four billion people in the world whose per capita income is less than U.S. $1500 (the people "at the bottom of the pyramid") represent an enormous opportunity for business. Their theory is that the poor in developing countries comprise a vast, untapped market for goods and services, including basic needs as well as more advanced offerings such as financial services, cellular telephones and inexpensive computers.

An example of a successful business that services this market is the Grameen Bank Ltd. in Bangladesh. Founded by Nobel Prize winner Muhammad Yunus, Grameen Bank extends small loans ("micro-credit") to low-income customers. Grameen Bank charges high interest rates of approximately 20% a year, but does not require collateral, which enables even the very poor to obtain credit and gain an opportunity to participate in the formal economy. Grameen Bank's success has stimulated interest in micro-credit around the world.

Although Prahalad and Hart mostly discuss "the bottom of the pyramid" as a potential market for transnational corporations ("TNCs") based in developed countries, this market also offers opportunities to businesses in developing countries. These firms, either alone or in partnership with TNCs, can use their understanding of the needs, and obstacles faced by, the poor to create sustainable enterprises, which will have the added benefit of helping to alleviate poverty.

Exhibit 50: The fortune at the bottom of the pyramid (Prahalad and Stuart)

Globalization and the small business entrepreneur

As the case in the beginning of this chapter demonstrates there are economic, social, and political factors an entrepreneur faces when establishing their business. This chapter will utilize this case, and many others like it, to show how business leaders like Ms. Shahira can incorporate the topics covered in the following pages into their business.

Harnessing technology for global business success

Over the last decade, the Internet has revolutionized the way companies do business. For an entrepreneur, the Internet is a great tool for doing business both internationally and domestically. Information about competitors, market trends, and global industries is also easily accessible and can help determine the path that an organization takes.

Exhibit 51: Technology has become a critical aspect of a company's operating environment.

Types of technology

Internet

The Internet is one of the most cost effective ways to promote products and services around the world. No other advertising medium reaches as many people as the Internet. Using specialized software and other tools, it is now easier than ever to build and run a successful website without a high level of computer skills. Typical information found on a company's website includes a description of the firm, a profile of the management team, products and services offered, and the way customers can contact the company.

Phone, Fax and SMS

Companies in less industrialized countries may not have viable access to the Internet due to a lack of infrastructure. For entrepreneurs facing this issue, phone, fax and SMS text messages are alternative ways in which to do business. Doing business via phone and fax is not difficult. Companies can send marketing materials or receive orders via fax. The use of phone for marketing and sales options is also very useful. Cold calls for marketing are still effective; likewise orders can be made and received over the telephone. Sending and receiving SMS text messages is rapidly becoming a feasible alternative and allows for immediate communication.

Technology for the business entrepreneur

There are multiple ways to implement and leverage technology into a business. If Ms. Shahira chooses to do this, there are inexpensive alternatives with growing benefits for her and her company. By using new techniques to run and establish her business, Ms. Shahira would be able to compete on a greater scale with companies in her industry.

Doing business across cultures

While many similarities exist among businesses, there are dynamics that must be taken into consideration in an increasingly global environment, such as multicultural employees and varying experiences in countries outside that of the business. It is essential to take these differences seriously and not assume that individuals have similar values.

Host country research and cultural implications

Cultural issues can be divided into two categories, explicit and implicit. Explicit culture issues are related to characteristics that one can see or perceive. Implicit culture issues, on the other hand, are related to attitudes and values, symbolized in the figure below.

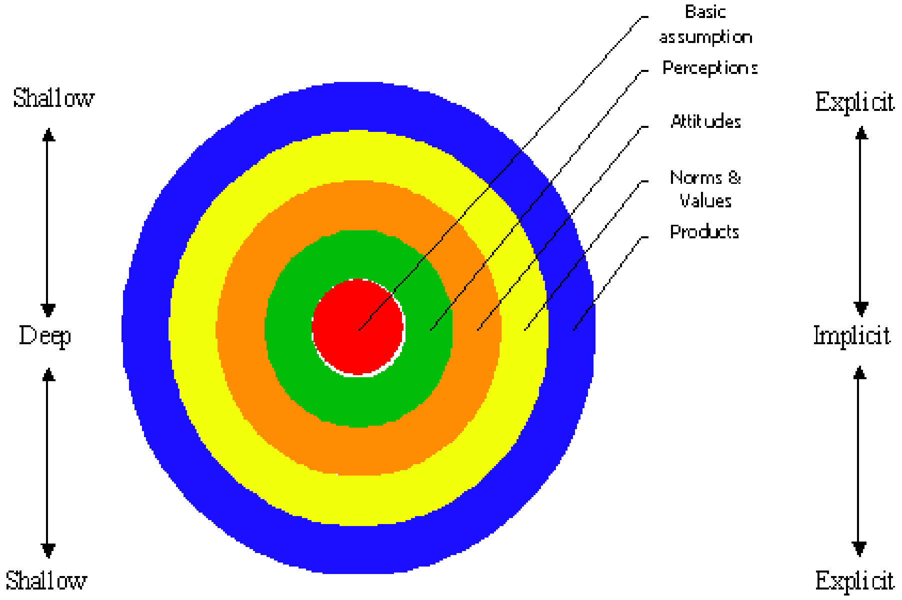

Exhibit 52: The Onion Metaphor of Culture (Ulijn and Fayolle, 2004)

Explicit culture exists on the outer layer and is the observable reality of the language, food, buildings, houses, monuments, agriculture, shrines, markets, fashions and art. These products are visible in people's behaviors, clothes, food, music and theater.

The middle layers include norms, values, and attitudes but are not directly visible. Norms are the mutual sense a group has of what is right and wrong that can develop on a formal level such as written law, or on an informal level such as social control. Values determine good from bad, and are closely related to the ideals shared by a group. A value in one culture may differ vastly from that of another, and therefore these differences must be studied and taken into consideration when doing business across cultures.

Cross-culture training

The creation of a stable and healthy workplace made up of people of varying cultural backgrounds is a matter of increasing importance in the global business environment. Employers must take into consideration the impact cultural diversity can have on both the homogeneity of the workplace and potential legal implications for improper discrimination.

The objective of training programs is to foster the four characteristics of preparedness, sensitivity, patience, and flexibility in managers and other personnel (Czinkota et al, 2005). Methods of training may range from factual preparation involving books and lectures to experiential training involving simulations and field experience. Some topics to be addressed in training might be, but are not limited to:

- comfort levels of trainees' with people of a different background
- impact of trainees' behaviors on others
- understanding stereotypes
- transforming knowledge into empathy
- embracing diversity as a source of strength
- learning a new language

Businesses with diverse cultural backgrounds must maintain an environment suited for every constituent so that the objectives of the business can be efficiently met. Installing cultural diversity training programs can help accomplish this by defining what cultural intelligence is, teaching employees to accept and work effectively with others from different cultural backgrounds, and taking advantage of advice from those who have cross-cultural experience.

Cultural classification

Cultures can either be distinguished according to descriptive characteristics or they can be broken up into value categories, which are essentially dimensions of national culture.

Hofstede's Five dimensions of national culture

Geert Hofstede, a leading expert in cultural values classification, developed a model of five dimensions of natural culture that help to explain basic value differences in culture. The model distinguishes cultures according to the following five different dimensions:

- Power distance
- Individualism/collectivism
- Masculinity/femininity
- Uncertainty avoidance

- Long-term orientation

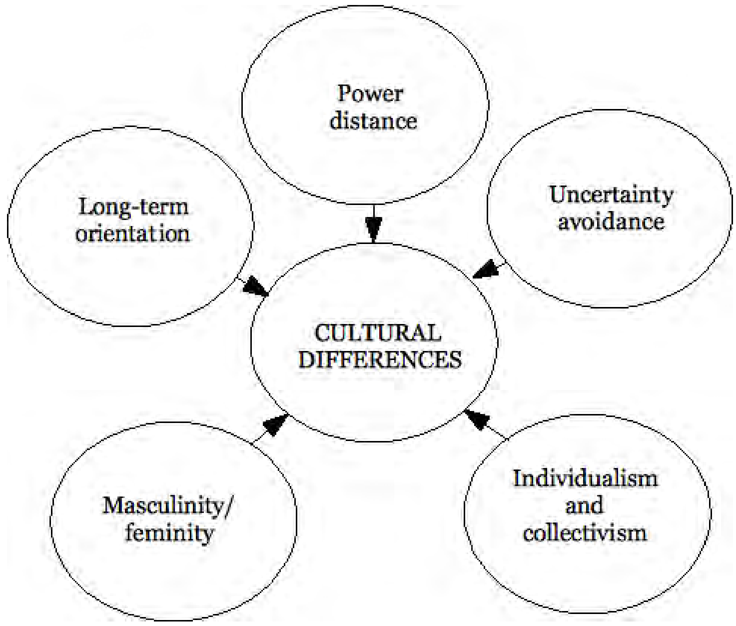

Exhibit 53: Hofstede's five cultural dimensions

Hofstede's 5 Cultural Dimensions

The Power Distance Index (PDI) focuses on the degree of equality, or inequality, between people in the country's society. The Individualism (IDV) focuses on the degree the society reinforces individual or collective, achievement and interpersonal relationships. The Masculinity (MAS) focuses on the degree the society reinforces, or does not reinforce, the traditional masculine work role model of male achievement, control, and power. The Uncertainty Avoidance Index (UAI) focuses on the level of tolerance for uncertainty and ambiguity within the society. These dimensions are measured on a scale from 0 to 100, include 75 countries or regions, and scores are determined by “high” or “low” rankings within each category.

Cultural values determine the way people think and behave. International marketers must understand many subtle differences that may affect the way their marketing is made and perceived in foreign markets. One medium in which many such differences reside is language. Because language is a reflection of culture, some words cannot be cross-culturally translated, which implies that it is often better to have local copywriters write and translate marketing and advertising content to avoid cultural misunderstandings. Because of this phenomenon, global advertising, which is a main component of global marketing, often relies on symbol recognition to convey meaning in their ads, instead of words.

The approach to discussing culture, as it relates to global marketing, in most textbooks is a three-pronged approach. First, the concept of culture is defined, second, the various components of culture are identified, and third, vivid examples of cultural differences are provided. The dire consequences of firms not taking these differences into account are invariably described, as adherence to local culture is considered one of the most important, if not the most important, components of success in international marketing (Hofstede, 1996).

Ethical considerations

Managers of businesses that conduct operations in an increasingly global environment face a dilemma when selecting and applying ethics to decisions in cross-cultural settings. Although ethical values may be similar across cultures in many cases, the application of those values to certain situations may vary. Ethics can be described as the science of human duty. It is upon the ethical standards of a person that judges whether or not an action is right or wrong.

Before a company does business across borders, it must first decide what its motivation is regarding ethical conduct, which will determine what kind of behavior is to be expected from employees.

Political and legal risk in international business

Political and legal risks are two very important aspects of running a business of which an entrepreneur should be aware. Failure to recognize these risks and adjust accordingly could potentially hinder the performance of the overall business.

What is political risk?

Political risk is generally defined as the risk to business interests resulting from political instability or political change. Political risk exists in every country around the globe and varies in magnitude and type from country to country. Political risks may arise from policy changes by governments to change controls imposed on exchange rates and interest rates (Barlett et al, 2004). Moreover, political risk may be caused by actions of legitimate governments such as controls on prices, outputs, activities, and currency and remittance restrictions. Political risk may also result from events outside of government controls such as war, revolution, terrorism, labor strikes, and extortion.

Political risk can adversely affect all aspects of international business from the right to export or import goods to the right to own or operate a business. AON (www.aon.com), for example, categorizes risk based on economic; exchange transfer; strike, riot, or civil commotion; war; terrorism; sovereign non-payment; legal and regulatory; political interference; and supply chain vulnerability.

How to evaluate your level of political risk

Forms of investment and risk

For a firm considering a new foreign market, there are three broad categories of international business: trade, international licensing of technology and intellectual property, and foreign direct investment. A company developing a business plan may have different elements of all three categories depending on the type of product or service.

The choice of entry depends on the firm's experience, the nature of its product or services, capital resources, and the amount of risk it's willing to consider (Schaffer et al, 2005). The risk between these three categories of market entry varies significantly with trade ranked the least risky if the company does not have offices overseas and does not keep inventories there. On the other side of the spectrum is direct foreign investment, which generally brings the greatest economic exposure and thus the greatest risk to the company.

Protection from political risk

Companies can reduce their exposure to political risk by careful planning and monitoring political developments. The company should have a deep understanding of domestic and international affairs for the country they are considering entering. The company should know how politically stable the country is, strength of its institutions, existence of any political or religious conflicts, ethnic composition, and minority rights. The country's standing in the international arena should also be part of the consideration; this includes its relations with neighbors, border disputes, membership in international organizations, and recognition of international law. If the company does not have the resources to conduct such research and analysis, it may find such information at their foreign embassies, international chambers of commerce, political risk consulting firms, insurance companies, and from international businessmen familiar with a particular region. In some countries, the governments will establish agencies to help private businesses grow overseas. Governments may also offer political risk insurance to promote exports or economic development. Private businesses may also purchase political risk insurance from insurance companies specialized in international business. Insurance companies offering political risk insurance will generally provide coverage against inconvertibility, expropriation and political violence, including civil strife (US Small Business Administration). Careful planning and vigilance should be part of any company's preparation for developing an international presence.

Government policy changes and trade relations

A government makes changes in policies that have an impact on international business. Many reasons may cause governments to change their policies toward foreign enterprises. High unemployment, widespread poverty, nationalistic pressure, and political unrest are just a few of the reasons that can lead to changes in policy. Changes in policies can impose more restrictions on foreign companies to operate or limit their access to financing and trade. In some cases, changes in policy may be favorable to foreign businesses as well.

To solve domestic problems, governments often use trade relations. Trade as a political tool may cause an international business to be caught in a trade war or embargo (Schaffer et al, 2005). As a result, international business can experience frequent change in regulations and policies, which can add additional costs of doing business overseas.

China establishes a new employment contract law for 2008 (www.aon.com)

In an effort to promote better employment relationships between employers and employees, and establish stricter guidelines for Employment practices, the Peoples Republic of China (PRC) passed a new employment contract law in June 2007 which became effective on January 1, 2008. This Alert provides highlights of the new law and the effect it will have on employees' rights and their employer's legal liability.

Introduction

On June 29, 2007 at the 28th session of the standing committee of the 10th National People's Congress, a new employment contract law was adopted which took take effect on 1 Jauary 2008. This law requires all employers to enter into contracts with their employees within 30 days of full-time employment and sets out guidelines for their implementation. By incorporating new legal provisions with existing laws from the current PRC labor law, the committee hopes to meet three main objectives: (1) to clarify the employment contract system by clearly identifying both the employer and the employee litigation rights and duties (2) provide protection of an employee's legitimate rights and interests and (3) construct and develop harmonious/stable work relations. All regulations that affect employees such as compensation, work hours, rest, leave, work safety and hygiene, insurance, benefits, employee training, work discipline or work quota management must be approved by the employee representative congress or by all the employees and determined with a trade union (to be established by all employers) or employee representatives. Rules, regulations and decisions having a direct bearing on employees shall be made public or be communicated to the employees by the employer. The labor administration authorities of People's Governments at the county level and above, together with the trade union and enterprise representatives will establish a comprehensive tri-partite mechanism for the coordination of employment relationships. The trade union will also assist employees with employment contracts in accordance with the law.

Increased Legal Liability

Employers

Certain articles in the new law will establish increased legal liability and possible criminal charges for employers whose actions cause an employee to suffer harm, such as:

1. An employer's internal rules or regulations violate the laws.

2. An employment contract is not delivered to an employee or lacks any of the mandatory clauses which the law requires.

3. An employee's resident ID cards, files or contract papers are retained by an employer illegally or the employer collects an unrequired financial guarantee from an employee.

4. An employer uses violence or threats to compel an employee to work, orders them to perform dangerous operations or provides an unsafe or polluted environment resulting in harm.

5. An employer conducts business without the required legal qualifications.

6. An employer terminates a contract in violation of the law.

Employees

Employees that terminate a contract in violation of the Law or breach any confidentiality obligations or competition restrictions stipulated in the contract can be held liable for damages sustained by the other party.

Joint Liability for Employers/Employees and/or Third Parties

1. If an employer hires an employee whose contract with another employer has not yet been terminated or ended, causing the other employer to suffer a loss, it shall be jointly and severally liable with the employee for damages.

2. A staffing firm that violates the law may be subject to fines and have their business license revoked. If the employee(s) they placed suffers harm as a result, both the staffing firm and company that accepted the employee shall be jointly and severally liable for damages.

3. A contractor hiring employees in violation of the law who suffer harm will result in joint liability for the organization that employed such contractor and the contractor.

4. Negligence on the part of a labor administration authority to act in accordance with the law will also result in them bearing liability.

Penalties for an Employer's Non-Compliance

Within the new law there are financial penalties for non-compliance with the terms of employer/employee contract guidelines, which include failure to conclude a written contract within the 30 day period, setting an illegal probationary period, illegally retaining an employee's resident ID card or other papers, etc. An employer that fails to pay an employee his salary, pays below the local minimum wage rate, fails to pay overtime or terminates a contract without paying the employee severance or without cause will also pay varying damages as stipulated in the new law.

Summary

The new employment contract law will enhance employees' rights in striving for better employment terms and working conditions. Therefore, all companies, including foreign companies who have invested in local subsidiary or representative offices in the PRC should re-examine their local and master directors' and officers' liability policies, as well as any employer's liability exposures and relevant local or global policies. Although the level of compliance and the degree to which the new law will be enforced is not yet known, it is important to be fully prepared for a 1 January 2008, not only by reviewing all employment contracts, employee handbooks and internal guidelines, but also by taking stock of any subcontracting agreements or the use of staffing companies and their policies.

Questions

How can the establishment of China's new employment contract benefit other countries that are looking to institute a new law like this one? How would this affect countries trading with China today? How will this new employment contract affect companies doing business in China?

What is legal risk?

Legal risk is the risk arising from failure to comply with statutory or regulatory obligations (http://www.ffiec.gov).

Generally, all laws in the host country will apply to an entrepreneur's local business operations. Examples include filing procedures, employment law, environmental law, tax law, and ownership requirements. The World Bank has a rather extensive country business law library which can be accessed from their website. This can be helpful in the initial phases of considering the legal ramifications of direct investment in a given country.

Many countries limit foreign ownership of assets and legally force foreign companies into a joint venture with a local partner in order to do business there. Poland, for example, limits foreign ownership of farmland and will continue to do so for another decade under agreements with the EU (Dadak, 2004).

It is important to remember that while doing business outside of the home country certain home country laws will still apply. Applicable laws differ from country to country, but one common extension is employment law.

The extent of jurisdiction beyond national boundaries varies widely. In anti-trust for instance, the United States law covers only situations where the violation affects the US, (meaning that it does not matter where the act causing the violation took place), while the EU considers only where the antitrust offense was implemented (Shaffer et al., 2005, pgs 657-664).

In order to minimize exposure to legal risks arising from confusion and excess cost, a company should seek legal advice if possible. In making such arrangements, written contracts should be used. This can minimize confusion in case of litigation.

Political and legal risk for the small business entrepreneur

While Ms. Shahira may be accustomed to a certain set of rules and regulations in her home country of Pakistan, she must anticipate new and other laws when exploring the possibility of expanding internationally. While Ms. Shahira and her small business of running a sewing company faces different political and legal risk than those of a larger company, she is still liable and must understand the laws and regulations that she may face in any country.

Global marketing: assessing potential markets overseas

Case: Toyota has a vehicle for every market

Each market has unique cultural characteristics and contextual circumstances that must be considered. For example, in the United States roads tend to be wide; highways can accommodate a broad array of vehicles with a high number of lanes, and people demand a mix of cars based on their needs. Conversely, in Europe roads tend to be narrow, and the market demands smaller, more fuel-efficient vehicles. Therefore, while a Toyota 4Runner tends to sell extremely well in the United States, it would not be a very popular model in Europe for these very reasons. As a result, Toyota invests billions of dollars every year into market research and market development to make sure they meet the needs and wants of its customers, in each specific country that they sell their vehicles in. This has led to Toyota's success in the US automotive market, as our earlier case suggested. With their #1 selling sedan, Toyota Camry, a wide array of hybrid models, trucks and SUVs to meet the United States constantly-changing expectations, Toyota is, arguably, the strongest player in the automotive industry.

What is global marketing?

One of the inevitable questions that surfaces concerning global marketing is: how does global marketing truly differ from domestic marketing, if at all? There has historically been much discussion over commonalities and differences between global and domestic marketing, but the three most common points of view upon which scholars agree are the following. First, all marketing is about the formulation and implementation of the basic policies known as the 4 P's: Product, Price, Place, and Promotion. Second, international marketing, unlike domestic marketing, is understood to be carried out "across borders". Third, international marketing is not synonymous with international trade (Perry, 1990). Perhaps the best way to distinguish between the two is simply to focus on the textbook definition of international marketing. One comprehensive definition states that, "international marketing means identifying needs and wants of customers in different markets and cultures, providing products, services, technologies, and ideas to give the firm a competitive marketing advantage, communicating information about these products and services and distributing and exchanging them internationally through one or a combination of foreign market entry modes (Bradley, 2005)".

The 4 P'S of the Marketing Mix (NetMBA, 2008)

Exhibit 54: he 4 P'S: Product, Price, Place and Promotion are aspects of the marketing mix that are generally controllable

As the following table demonstrates, many decisions affect the marketing mix (NetMBA, 2008):

Table 14: All of these issues must be reconsidered in each market. The marketing mix will appropriately vary as different circumstances dictate.

Product Decisions	Price Decisions
Brand Name Functionality Styling Quality Safety	Pricing strategy (price skimming, price penetration, etc.) Volume discounting and wholesale pricing Seasonal pricing Bundling

Packaging Repairs and Support Warranty Accessories and services	Price flexibility Price discrimination
Place Decisions Distribution Channels Market coverage (inclusive, selective, or exclusive distribution) Inventory Management Warehousing Order processing Reverse logistics	Promotions Decisions Push, Pull Strategies Advertising Personal Selling Sales Promotions Public Relations and Publicity

Importance of culture on markets

Because international marketing is closely correlated to the cultures in which a firm wishes to sell its product, culture itself must be analyzed to understand the best way to integrate into both existing and emerging foreign markets. There are five essential areas within which culture must be continually studied in order to achieve success in dealing with culture as it affects international marketing.

These are (Tian, 2008):

- culture impacts on marketing (international versus domestic)
- cross-cultural dimensions of marketing research
- cross-cultural aspects of marketing mix (products, price, promotion, and place)
- cross-cultural marketing education and professional training
- and cross-cultural practice in electronic marketing

Cross-cultural marketing occurs when a consumer's culture differs from that of the marketer's own culture.

Consumer behavior diverges across country lines with increased wealth, globalization, and technology; it does not converge (De Mooij, 2005). This simple fact proves the importance of culture knowledge in cross-cultural marketing endeavors. In fact, the importance of cross-cultural study has inspired a definition separate from that of international marketing. Cross-cultural marketing is defined as the strategic process of marketing among consumers whose culture differs from that of the marketer's own culture at least in one of the fundamental cultural aspects, such as language, religion, social norms and values, education, and the living style (Tian, 2008).

A standardized marketing model utilizes the same functions in all markets. Conversely, a customized marketing strategy adheres to the needs and wants of a particular target market.

Global branding—creation of a marketing strategy

An important decision that international marketers must make is whether to utilize standardized marketing, treating all markets in the same manner, or customized marketing, adhering to local customs and traditions for greater effectiveness. This is an important distinction when analyzing the creation, perception, and trends in global branding. In most countries and cultures, marketers do not compete with individual products, but rather with competing brands markets. Many writers have reasoned that a standardized approach to international markets is the most desirable strategy. The main arguments include that sales will increase when a company can market a consistent product image across different geographical markets, and that cost can be reduced through the formulation and implementation of a single standardized marketing plan. Still others argue that because few markets are comparable across country lines, it is necessary to adapt the marketing mix to ensure that sufficient customization exists to satisfy consumer needs in each market. Additionally, not all companies are able to adopt a standardized strategy as its appropriateness varies from industry to industry. One must remember that even within markets there is great diversity of behavior and taste. In the face of intensely increasing competition and globalization, studies show that people increasingly prefer brands with roots in their national or regional tradition. This would indicate that most firms should lean towards marketing customization in order to satisfy the increasingly nationalistic consumption tendencies of their consumers (Bradley, 2005).

Global marketing and the small business entrepreneur

While marketing the products of the highly successful sewing company that Ms. Shahira has started in Pakistan may not be something that she is looking to do today, it is critical for her, and small businesses like the one she has set up, to understand what it would take to market to a completely different set of clients, in a new country.

Companies like Toyota and Coca-Cola have created a dominant brand across the world with their global branding and positioning strategies, and as a result have sustained tremendous financial benefits from doing so.

Global finance: initial considerations

As the global economy has become more integrated, every company and individual is affected by the developments of the markets and the economies of countries other than their own. Entrepreneurs willing to venture into the global financial marketplace may find lower-cost financing alternatives than are available in their home country. They may also want to obtain financing in the local markets they choose to serve. As a result, with constant economic changes, and fluctuations in the marketplace, along with trade barriers being lowered around the world, the entrepreneurs of tomorrow cannot limit their finance knowledge to just their home country, but can be open to looking at alternative sources to fund their business operations. Entrepreneurs will find that understanding the functioning of the global financial marketplace is a key element of their knowledge and skill base, and a key aspect of furthering their business.

International currency market

Exchange rates

The price of one country's currency in units of another country's currency is known as a foreign currency exchange rate. Exchange rates can be quoted in two ways. One way, known as a direct quote, is to state the number of domestic units of currency per one unit of foreign currency. If an exchange rate is an indirect quote, the exchange rate is stated as the number of foreign units per one unit of domestic currency (Beenhakker, 2001).

For a US company trading US dollars ($) for Swiss Francs (CHF)	
Direct Quote	$0.75/CHF
Indirect Quote	CHF1.25/$

Exhibit 55: Indirect quote example

Foreign exchange market

The foreign exchange (Forex) market is the mechanism, which facilitates the purchase and the sale of foreign currencies. The Forex is a financial market where the participants exchange one monetary unit for another currency. The market operates continuously, 24 hours a day, because a financial center is always open somewhere in the world. The interconnection of the markets makes continuous trading possible (Carrada-Bravo, 2003).

The foreign exchange market is generally divided into five basic currency markets based on pricing procedures ruling the exchange, the time to maturity, the degree of freedom available, the convertibility of currencies, and how the currencies are quoted (Carrada-Bravo, 2003).

In addition, the foreign exchange market is one of the most traded and liquid instruments in the financial world, and serves as a barometer of broader financial market conditions and risk appetite.

Introduction to currency risk

Currency risk is the potential consequence from an adverse movement in foreign exchange rates (Coyle, 2000). Organizations are exposed to currency risk when involved, directly or indirectly, in international trade and finance. Currency risk arises because exchange rates are volatile in the short and the long-term and the future movements of exchange rates cannot be predicted. Companies will as a result suffer losses due to adverse exchange rate movements when exposed to foreign currencies (Coyle, 2000).

Hedging is the term used to describe the actions that reduce or eliminate an exposure to risk (Coyle, 2000). Common ways of hedging currency risk involve:

- transferring the risk to your trading partner by placing the transaction in your domestic currency
- structurally hedging your risk by off setting income against expenditure in the same currency
- purchasing derivatives in the foreign exchange market (Coyle, 2000)

Introduction to derivatives

A financial derivative is a financial instrument where the price is derived from the value of an underlying asset often used to manage risk exposure. There are three classes of derivatives.

Futures: A futures contract is a "commitment to exchange a specified amount of one asset for a specified amount of another asset at a specified time in the future" (Butler, 2003).

Options: An options contract "gives the option holder the right to buy or sell an underlying asset at a specified price and on a specified date" (Butler, 2003).

Swaps: A swap is an "agreement to exchange two liabilities (or assets) and, after a prearranged length of time, to re-exchange the liabilities (or assets)" (Butler, 2003).

Financial derivatives are a very complex system of agreements. It is wise to consult a banking professional for advice on how to implement.

International accounting standards board

The International Accounting Standards Committee (IASC) Foundation, formed in March 2001, is the parent body of the International Accounting Standards Board (IASB). The IASB, formed on April 1, 2001, has assumed accounting standard-setting responsibilities from its predecessor body, the IASC (International Accounting Standard Boards: About Us, n.d.).

The objectives of the IASB are:

- To develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards
- To help participants in the world's capital markets and other users make economic decisions by having access to high quality, transparent, and comparable information
- To promote the use and vigorous application of those standards
- To bring about convergence of national accounting standards and international accounting standards to high quality solutions (Hussey, 2005).

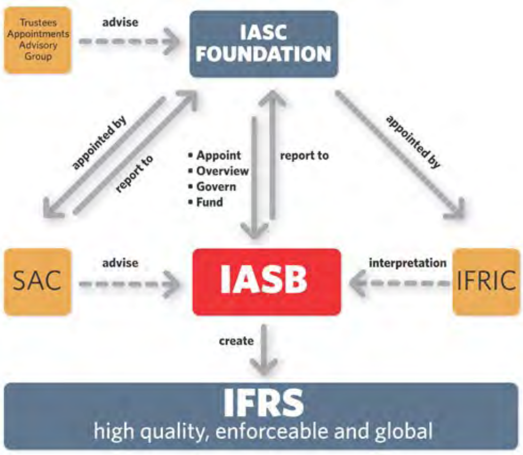

Exhibit 56: The way the IASB functions (www.iasb.org)

Even though the IASB standards are not enforced internationally at this time, the standards are quickly being processed. Therefore, a company looking to go international should abide by IASB standards.

Global finance and the small business entrepreneur

With the Aga Khan Rural Support Programme (AKRSP) micro-loan, Ms. Shahira has begun to venture into the global financial marketplace. While the funding from the loan was sufficient for Ms. Shahira's small business at the time, upon expansion, she will require additional sources of capital. Understanding the home country's financial system, and the alternative funding sources available abroad, is a key element of furthering her sewing company.

Organizational structure and human resources management

One of the fundamental challenges facing companies of all sizes is determining how to organize and staff their operations. This task becomes even more complex when a company decides to do business across national borders.

A small business owner may start out as the only employee in his or her company. In this case organization and staffing simply involves the efficient allocation of the owner's time and attention to the various tasks associated with the business. As the company grows, more employees will probably be hired. When this occurs, it is useful to explicitly look at how tasks can be allocated across employees in a systematic way. As the company grows still larger, it is often useful to begin organizing the company into departments.

In many cases, a company's early moves overseas involve reacting to an apparently random or unexpected overseas business opportunity. At first, such business may be conducted anywhere in the organization on an ad hoc basis. As a company extends its operations overseas, it takes on additional complexity as decisions have to be made which address global and local product design, local responsiveness to individual markets, cross-border financing, etc. As the international side of the business grows, many companies conclude that a reorganization of some type can better handle the current international business demands, and better position the company to take full advantage of international opportunities as they arise. In the following section, several common international organization structures are briefly described.

International division

Perhaps the simplest start for many organizations is to adopt what is known as an international division. With the addition of an international division, the domestic organization may remain relatively unchanged while an additional side structure is added. This additional structure (in collaboration with the domestic structure) takes on the responsibility for virtually all international business. This structure assumes that there are skills associated with doing business overseas that will transcend the typical business lines. Market assessments, compliance with export/import regulations, arranging shipping, identification of local representatives, establishment of dedicated sales offices, production facilities, etc. are all examples of tasks often assigned to the international division.

Advantages: The international division is effective in consolidating international activity under one area of responsibility. Such a division develops international expertise that can serve all areas of the organization. This eliminates the need for every part of the organization to master the ins and outs of doing business overseas (this can sometimes be quite complex).

Disadvantages: On the other hand, the existence of an international division encourages the organization to approach their business in an artificially dichotomous manner. Part of the business organization focuses primarily on the home country market, while the international division serves "the rest of the world". In most organizations such a structure lends itself to a continuing preoccupation with the home country market.

As a company becomes more serious about overseas business, it often finds it useful to adopt a more sophisticated global structure. Four examples of such organizations are included below.

Global functional structure

A global functional structure is often adopted by companies with a very limited product scope. A CEO will oversee a number of business functions that have been identified as critical to business operations. Because the product mix is singular or limited, the CEO can coordinate the work of the functions and bring the resources of each to bear on the product line. In this case, the CEO serves as the common denominator between the functions.

Advantages: In many organizations, the primary sources of expertise are functionally based. Therefore, economies of scale can be achieved by grouping these resources by function. In the case of human resources, for instance, a central human resources function can serve as a consultant to all parts of the organization on issues such as pay and performance evaluation. This eliminates the redundancy occurring when multiple parts of the organization attempt to develop such programs on their own. A functional organization also enables the organization to standardize policies, practices and procedures that can be carried out throughout the organization.

Disadvantages: The primary focus on business functional activity, often distracts organizations from specific product requirements, customer needs, and geographic idiosyncrasies. With the top of the organization serving as common denominator and arbiter between the functions, strategies may not reflect realities on the ground as decisions are made without the benefit of close interaction with customers and deep understanding of local circumstances.

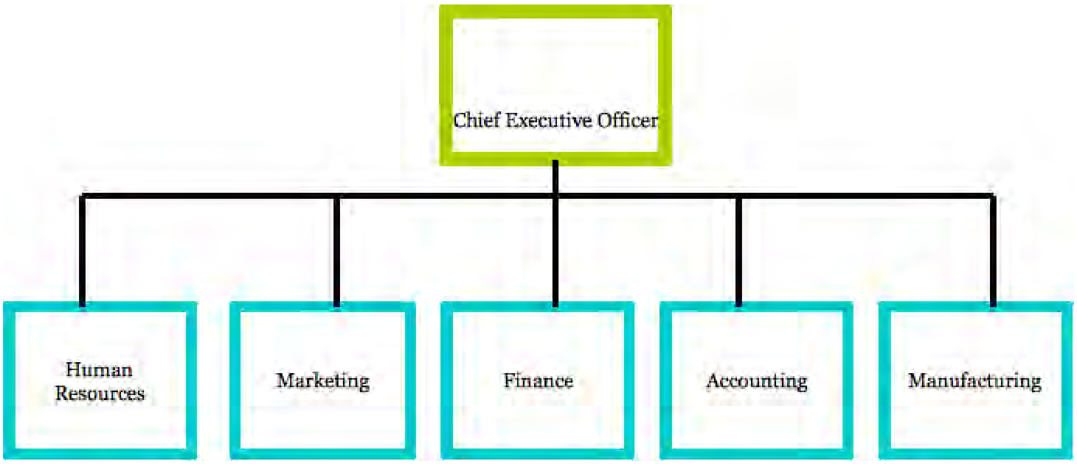

Exhibit 57: A global structure

Product structure

A global product structure is often chosen in companies with an array of diverse product lines. Each product line is assigned to its own organization unit so that decision-making is focused on the product characteristic and the customers who will be targeted. In many cases, the product unit will have its own functional organization—in essence, operating as a stand alone business in the context of the larger organization. In many cases, a product unit will be managed with full profit and loss responsibility.

Advantages: The main advantage of a product structure is that it focuses attention and resources toward a single product and the customers toward which that product is targeted. Decisions are optimized for the success of the product and distractions are minimized.

Disadvantages: Redundancies often exist across product organizations as functional responsibilities are duplicated under each product organization. Economies of scale and scope are more difficult to achieve as this organization structure encourages less cooperation and coordination across the product units.

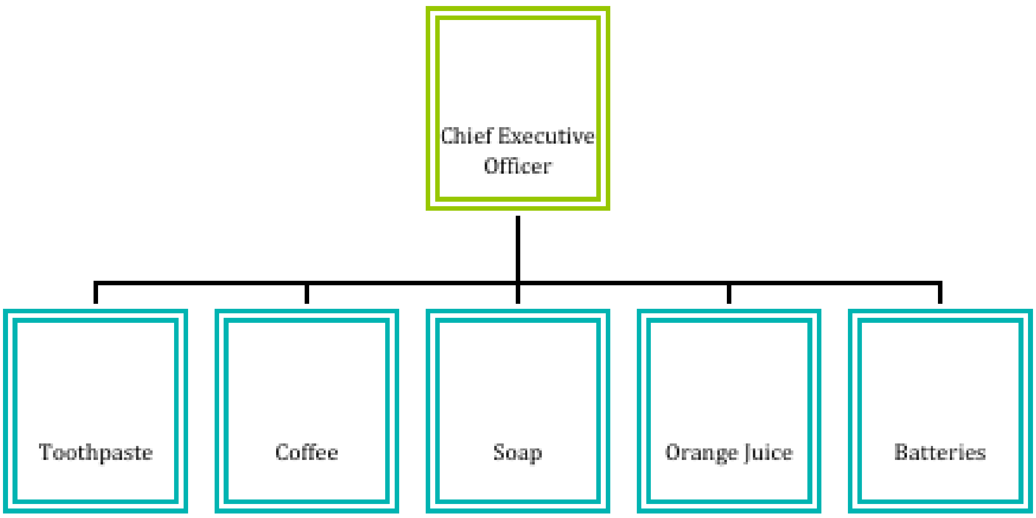

Exhibit 58: A product structure

Area/geographic structure:

An area structure is often chosen by companies who want to emphasize geographically specific strategies and focus decision-making on local needs. Organizations may be divided up into regional and country structures where country managers operate rather autonomous businesses supported by an array of local functions. In this case, the country organization often operates as a fairly self-contained business with substantial local authority as well as profit and loss responsibility.

Advantages: The country organization is capable of sensing and understanding local conditions and is able to formulate strategies which effectively meet the needs of local stakeholders. Policies in areas such as human resource management can be tailored to meet the needs and expectations of local employees, product mix and design can be optimized for local conditions, and the organization can respond more quickly to changing circumstances on the ground.

Disadvantages: The disadvantages of the area structure are similar to those of the product structure. Economies of scale will be harder to achieve as different localities develop and implement very different product strategies on one hand, and invest resources in developing local functional expertise and effort which may well be duplicated unnecessarily across geographic units.

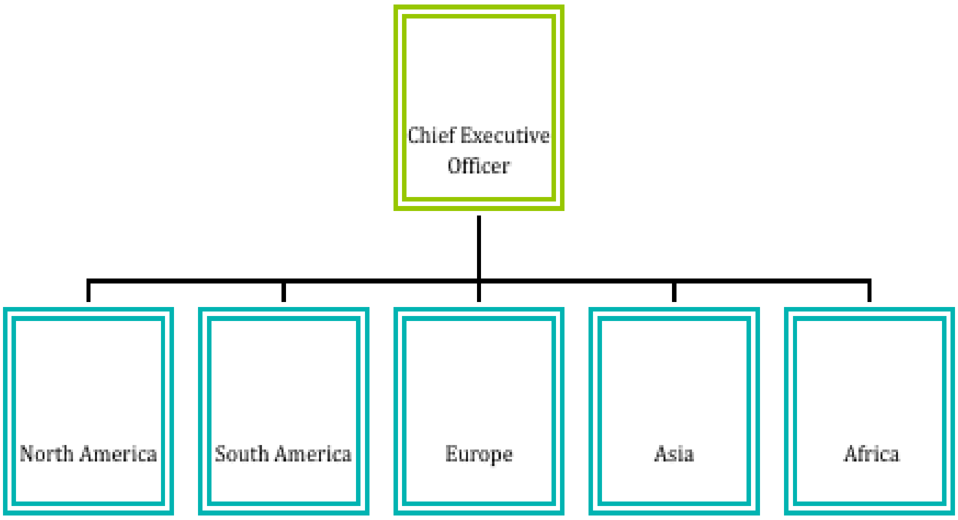

Exhibit 59: Area/geographic structure

Matrix structure:

A matrix structure is often adopted in organizations that would like to optimize decisions across multiple organization dimensions. In other words, they would like to achieve economies of scale where appropriate, but do not want to lose the ability to respond to product/customer and geographic needs more effectively.

A matrix organization simultaneously utilizes two or more dimensions (product, geographic, function, etc.) to organize the company's work. In this case, two or more dimensions may have direct links to the head of the organization (see Exhibit 48) and key individuals throughout the organization may actually report to more than one dimension. As can be seen in Exhibit 48, the orange juice product manager reports to the head of the organization, as does the head of the finance function. In this example, the finance officer in the orange juice product group reports to two individuals: the head of finance and the head of the orange juice group. At the same time, a geographic dimension may require that the function and product heads interact as coequals with any number of country managers or regional heads as well.

Advantages: The matrix allows functional efficiencies to be achieved while also allowing for the management of discrete product lines. Product managers remain focused on specific customer and product issues, yet can tap into the specialized support systems offered by strong functions. Where a geographic dimension is included in the structure, country managers or other local personnel can devote their attention to the development of location specific strategies. Communication and information sharing may be facilitated through the multiple dimensions.

Disadvantages: The matrix is complex and often involves additional coordination costs. Confusion and ambiguity may result from multiple reporting relationships as a single individual may receive conflicting direction from their various supervisors.

Exhibit 60: Matrix structure

Beyond the matrix:

Each of the above organizational choices clearly offers advantages and disadvantages.

While some type of hierarchy exists at the heart of most organization designs, many organizations are finding that the typical pyramid shaped organization no longer meets their needs. They are looking for options that allow greater flexibility and responsiveness. Such organizations may legitimize informal relationships between various organizational parts and levels. They may rely more on teams as coordinating mechanisms and they may actively encourage collaboration and sharing across business units. Successful global organizations in the 21st century will balance hierarchical control (which remains critical in most organizations) on one hand, with less rigidity, more flexibility and emphasis on individual empowerment on the other.

Staffing choices in a globally far-flung company

Staffing choices in a far-flung global company are more complex as well. Issues of cost, cultural savvy, familiarity with local conditions, language skill, family issues, and more must all be considered carefully as staffing decisions are made. In addition to many of the standard human resources challenges that inevitably arise, determining where employees will be sourced from represents one of the most important decisions facing companies as they set up operations abroad. In general, employees may come from any of the following sources: the headquarters (home) country, the host (local) country, or a third country (neither home, nor host). These choices are outlined briefly below.

Ethnocentric staffing involves staffing overseas positions with home country personnel. These “expatriates” are usually assigned to fairly senior or technical positions in the overseas organization. An example of this staffing choice would be when a Japanese company sets up an office in the United States and sends a Japanese executive from their headquarters in Tokyo to staff the new office in Chicago.

Advantages: Home country staff, when sent overseas, are familiar with the home country operations and culture. Because of this, they may be able to better communicate with headquarters, access needed resources, and tap into a home-country network. In addition, the home country may know these people well from past collaboration that can lead to high levels of trust and confidence between the parties. Familiarity with the company often means that these individuals bring special company-specific expertise along with them, as well as technical skills and knowledge related to the company’s product offering. They may also bring general technical, or managerial skills that may be in short supply in the host country. Ethnocentric staffing offers the additional benefit of building a global mindset among the home country workforce. Those individuals who are sent overseas as expatriates will often return home with a more globalized perspective.

Disadvantages: Home country employees are expensive. Many companies estimate that sending an expatriate overseas costs about 2-5 times their annual salary. This means that sending an executive and their family overseas can cost hundreds of thousands of dollars or more per year. The home country employee is usually less familiar with the local culture and employment conditions, and the employee and the family may find it hard to adapt to the new local living and working conditions. In fact, according to widely cited research, failure of the spouse and of the family to adapt to local cultural differences are two of the most frequent reasons that an employee assigned to an overseas post will fail to complete their assignment. Ethnocentric staffing practices are also sometimes criticized for preventing talented local employees from filling the positions held by expatriates.

Polycentric staffing involves hiring local personnel to fill needed overseas positions. For example, under this model, a South African company setting up an office in Brazil would hire a Brazilian to fill an open position.

Advantages: A polycentric staffing strategy is much less expensive than the ethnocentric model. Relocation costs are usually much lower and a standard compensation package consistent with the local market is usually sufficient. Local employees are usually more familiar with the local culture and language and may have access to networks and relationships with local stakeholders.

Disadvantages: Talent is often short in host countries. Lack of familiarity with the home country conditions, culture and language may become a barrier to effective communication with the headquarters staff. Lack of familiarity with headquarters operations may make it difficult for the local staff to access needed resources and assistance.

Geocentric staffing involves staffing a location without regard for the employees’ place of origin. Companies simply scan their global workforce for the best qualified candidate to fill a position. In this model, a Chinese company might fill a position in their Mexico office with an employee from the United Kingdom.

Advantages: The geocentric model offers the most employment flexibility and choice to the company. The company can search the entire global workforce to find the most qualified candidate for a certain position. Opportunities for cross-cultural development are extended to company employees no matter which country they come from. The additional global interaction taking place can foster teamwork across countries and a better cross-border understanding of company operations. A cadre of globally savvy employees with experience in multiple company locations can be a powerful asset as the company continues to seek additional overseas opportunities.

Disadvantages: Geocentric staffing can be as expensive as ethnocentric staffing practices. Employees and families often have to be relocated across country boundaries and long distances. Geocentrically placed employees may be unfamiliar with local practices.

Regiocentric staffing involves staffing within a global region. In this case, a Korean company might fill a position in Italy with a Spanish employee.

Advantages: Moves are often made over shorter distances as employees are relocated. Cultural and linguistic differences may be less pronounced. Employees gain the benefits of cross-cultural experience as they work outside their home country.

Disadvantages: Costs of relocation often remain fairly high. While cross-cultural perspective is built, a truly global perspective may still be lacking. It is also important to note that cultural and language differences will often be significant factors even within region.

All of the above models have strengths and weaknesses which must be seriously considered. In most companies with multiple employees in overseas locations a mixed strategy will often make the most sense both in terms of efficiency and effectiveness. A few select positions may best be filled with either home country or third country nationals while the vast majority of employment positions are usually filled by local employees. Because cross-cultural difference will be encountered in almost any overseas staffing configuration, significant investment in cross-cultural skills training will be extremely valuable.

Trends and challenges in a global HR environment

HR leaders in the 21st century will be challenged to address a number of issues to ensure availability of skilled staff, regardless of which staffing option the MNC pursues. As the global environment continues to develop, MNCs are challenged to address the shortage in global skills and cross-cultural communication barriers. The successful MNC will be able to adapt to the changing environment by globalizing their HR systems and function, and globalizing the workforce mindset. These efforts must also be aligned with business and organizational objectives and will require HR professionals to adopt a new way of thinking to identify and implement new ways of getting work done.

HR systems in the MNC must be aligned with global business imperatives both in terms of pay and performance systems. As the number of overseas transfers increases, MNCs must look to develop general policies and compensation packages rather than negotiating these on a case-by-case basis in order to obtain efficiency and consistency of process. Systems must also be in place for succession planning on a local level as well as a global level. Currently many MNCs are not operating an effective expatriate pipeline, either not sending the most effective individuals to host countries or failing the repatriate them effectively. The trend towards increasing reliance on integrated systems should contribute to better access across borders and regions to better serve expatriate relocation and business decisions.

Another opportunity for MNCs in regards to creating a global workforce will be to standardize and revisit current expatriate compensation packages to include soft benefits. Until now, individuals have often not been willing to take positions abroad because the incentives are solely financial. Historically, systems have not been in place to repatriate smoothly the individual and family following completion of their overseas assignment. Many employees find themselves out of their home HR system, and therefore are not made aware of possibly enticing job opportunities at home. This can be improved greatly simply by creating alignment and communication between the home and international HR department.

Corporate Social Responsibility and sustainable development in the global environment

The topics surrounding Corporate Social Responsibility (CSR) have become more complex due to the globalization of the economy and the issues that arise from companies competing in international markets. Companies are manufacturing goods, hiring local labor, utilizing raw materials and resources extracted from the environment in international locations.

This heightened awareness of CSR and sustainable development has been endorsed by an increased responsiveness to ethical, social, environmental and other global issues. In recent years, companies have been the center of scandals regarding accounting practices, damages to the environment, inadequate treatment of employees and workers and the effect of its products on the society.

For example, in January 2009, the Chairman of one of India's largest technology companies, Satyam Computer Services Ltd., said he fabricated key financial results, including a fictitious cash balance of more than USD 1 billion (Sheth, 2009). Cases like this, and others such as Enron Corporation and Worldcom in the United States, prompt concerns about corporate governance and accounting standards globally. Further, corporate fraud puts into question one of the fundamental reasons of why shareholders invest in public companies, the need for transparency.

As a result, companies are responding to increased public expectations of responsibility and incorporating the concept of CSR into their operating plans and strategy.

Exhibit 61: Corporate Social Responsibility (CSR) is a concept whereby companies integrate ethical, social, environmental, and other global issues into their business operations and in their interaction with their stakeholders (employees, customers, shareholders, investors, local communities, government), all on a voluntary basis

Source: industryplayer.com

Corporate Social Responsibility and sustainable development defined

Traditionally, CSR has been defined as the corporation's responsibility to comply with the laws and responsibilities to its shareholders. This concept of CSR has evolved to include the organization's responsibility for its impact on different stakeholders such as employees, customers, investors, local communities, and government.

A broader concept is that CSR involves the commitment on the part of the company to adopt behavior that will result in the improvement of the quality of life of its stakeholders while contributing to the economic development of its business. To improve the welfare of its community, the company may take on broad environmental and social endeavors.

The World Business Council for Sustainable Development defines CSR as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" (wbcsd.org). This definition outlines the role of enterprises as active partners in the communities in which they operate, rather than the more traditional view of enterprise as a separate, self-regulating, profit-making entity.

CSR Positives and Negatives

Milton Friedman, in his book, *Capitalism and Freedom*, argues that:

"There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

Stockholder wealth maximization commands that corporate management should aggressively seek to maximize stockholder returns by working to increase share prices and to continually grow the dividends paid to shareholders (Czinkota, 2005).

Conversely, according to Professor Archie B. Carroll:

"Corporate social responsibility involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible then means that profitability and obedience to the law are foremost conditions when discussing the firm's ethics and the extent to which it supports the society in which it exists with contributions of money, time and talent" (Carroll,1983).

Carroll's CSR model contains four categories of corporate responsibility organized from most to least important. According to Carroll, the "history of business suggests an early emphasis on the economic and then legal aspects and a later concern for the ethical and discretionary aspects" (Carroll, 1979). Economic obligations are, therefore, seen to be moderated by ethical responsibilities or social expectations and norms. Discretionary responsibilities go beyond ethical responsibilities and include philanthropic measures. In 1991, Carroll presented his CSR model as a pyramid, and suggested that although the components are not mutually exclusive, it "helps the manager to see that the different types of obligations are in constant tension with one another" (Carroll, 1979).

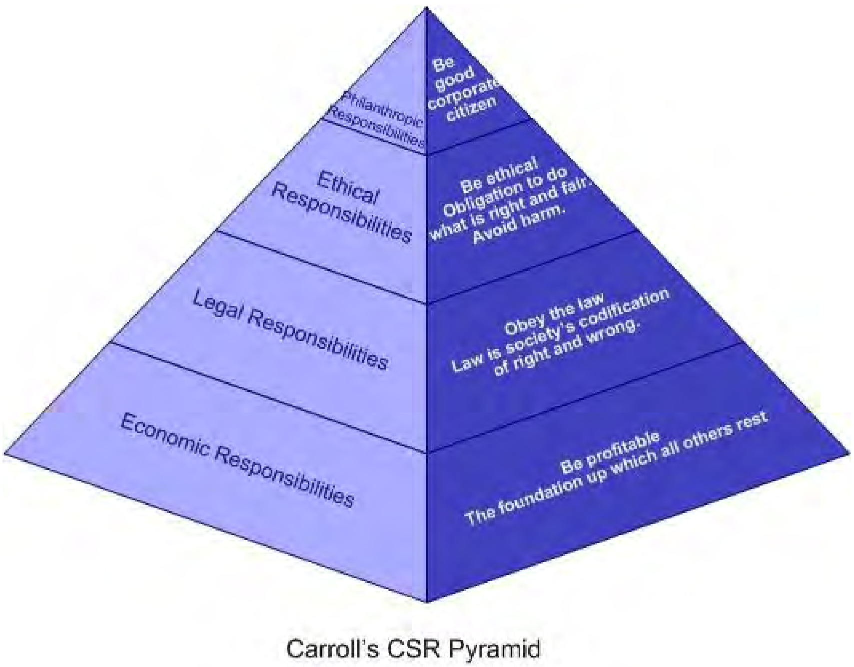

Exhibit 62: Carroll's CSR Pyramid: A three-dimensional conceptual model of corporate social performance.

There is no indication that CSR (corporate wealth maximization) and profitability (stockholder wealth maximization) are mutually exclusive (Czinkota, 2005). Corporate wealth maximization suggests that companies consider and balance short-term goals against long-term societal goals of continued employment, community citizenship and public welfare needs (Czinkota, 2005). The successful multinational enterprises of the coming century will be those that find the unique balance between financial objectives and CSR.

CSR and Sustained Development initiatives

There are a number of projects and initiatives that are shaping the goals and principles of corporate social responsibility and sustainable development, such as:

- *OECD (Organization for Economic Cooperation and Development)* is an international organization with 35 industrialized countries as participants, which account for 76 per cent of the world trade. The themes that this organization addresses include environmental, human rights, labor issues, and information disclosure.
- *UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights*. The completion of these norms was possible through discussions with unions, business, and NGOs. The norms include clarification of corporate social responsibilities of companies in countries where they operate, and also refer to human rights in the workplace.
- I*LO (International Labor Organization)* and its *Tripartite Declaration* focuses on the “social aspects of the activities of multinational enterprises, including employment creation in the developing countries” (Governing Body of International Labor Office, 204th session). The principles established by this organization are adopted voluntarily, and thus its reach is limited since non-compliance cannot be sanctioned.
- United Nations' Global Compact was established in 1999 by United Nations' Secretary Kofi Annan as a voluntary international initiative. Participant companies are asked to demonstrate their support to ten different international principles of human and labor rights, anti-corruption and environmental protection, to seek solutions to the challenges of globalization and promote responsible corporate citizenship. The initiative has more than 2,500 business participants from 90 countries around the world.
- *Kyoto Protocol* was agreed on in 1997 to reduce greenhouse gas emissions by 2012. A total of 1968 countries and the EEC have ratified the protocol (envroliteracy.org, 2007).

CSR and corporate strategy

A distinction must be made between charity and CSR. Charity refers to a company’s efforts to donate money or resources to an organization or a cause, promoting and allowing employees to volunteer in the community, and the establishment or endorsement of foundations. Conversely, CSR is a concept that involves a company taking into consideration the different stakeholders involved when making a business decision. The Organization for Economic Cooperation and Development identified CSR to be an integral part of a company’s value system and strategy (intranet.csreurope.org). For a company to fully integrate CSR, top management must integrate social responsibility into the strategic level of the decision-making process in order to develop a framework for economic decisions made at different levels of the organization’s hierarchy.

The problem that a company will encounter if CSR is not integrated into the organization strategy is that management and employees could bypass social responsibility considerations and CSR becomes personal ethics rather than CSR. To adopt a CSR strategy the organization needs to take the following steps:

- Define CSR for their particular business.
- Understand motivations underlying its commitment.
- Establish policies and goals to achieve CSR.
- Establish measures to monitor their accomplishments in CSR (bsr.org).

Case: Built to Last by Jim Collins

How important is Corporate Social Responsibility (CSR) as a core value for the top companies in the world?

In the book *Built to Last*, by Jim Collins the results of a six-year research project into what makes enduring great companies is outlined. Collins listed 18 companies identified as "visionaries" .A visionary company is defined as one that is a leader in its industry, is widely admired by knowledgeable businesspeople, made an imprint on the world, had multiple generations of CEO's, had multiple product/service life cycles, and was founded before 1950. The list of 18 included companies such as Ford, General Electric, Johnson & Johnson, Sony, and Wal-mart.

From 1926 through 1990 these companies outperformed the general stock market by fifteen times.

A key attribute of the findings is that all of these highly profitable companies have sound social values and CSR is an important component of their success. This study shows the relevance of CSR and the importance of strong core values for a successful organization.

Successful Implementation of CSR and Sustainable Development

Tetra Pak Colombia worked with a small recycling company in Colombia to develop a technology they named Ecoplak. The technology utilizes 100 per cent of the residuals of tetra pack carton packages to obtain the material that can be used in the production of roofs and chipboards. With this technology, Tetra Pack has built 24 houses for low-income families to date.

This company did not only take into consideration environmental issues in the recycling of waste from packages; but it also worked with a local recycler to produce this technology. Additionally, this initiative created jobs, developed knowledge in local businesses, and helped families in the community who probably would not have had access to a home. Each house was built using 1 million packages and consisted of 2 bedrooms, 1 bathroom, 1 kitchen, and a living room. The houses were also provided with electricity and water.

Tetra Pak Colombia is currently working with the government to coordinate this effort and is still building houses that are periodically awarded to low income people of the community (tetrapak.com).

CSR, Sustainable Development, and the Future of Businesses

Peter Drucker, in his article, *The New Meaning of Corporate Social Responsibility*, explained that "the proper social responsibility of business is to tame the dragon that is to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth" (Berkhout,2007).

As evidenced in the case of Tetra Pack Colombia, a company with CSR and sustainable development aligned into its strategy can be effective in working with its community to solve a social problem. In this case, Tetra Pack Colombia was able to utilize waste that impacted the environment; worked with the government to coordinate efforts to improve the welfare and the quality of life of its community; worked with companies in the community to develop knowledge and new technologies; and create new jobs and alternative, environmentally friendly new sources of material.

According to the World Business Council for Sustainable Development, "By 2050, 85% of the world's population of some nine billion people will be in (less industrialized) countries. If these people are not by then engaged in the marketplace, business cannot prosper and the benefits of a global market will not exist. Clearly it is in our mutual interest to help societies shift to a more sustainable path."

Companies will increasingly be called upon to participate to address challenges of social and environmental roots, both locally and globally. Sustainable development business opportunities exist everywhere and in all forms. Such opportunities include recycling, reducing, and reusing. Improved efficiencies, biotechnology, and miniaturization are other ideas. Innovative leadership in life equality issues is becoming more and more of a trend today. It is no doubt that unique economic and environmental needs exist in industrial and less industrialized countries. CSR opportunities and challenges include promoting good labor practices and diversity, supporting health and education programs in the community. There are few limits in the design and implementation of socially responsible initiatives for a company.

CSR and the small business entrepreneur

For a small business entrepreneur, like Ms. Shahira, her company profits from its relationship with the community. Its stakeholders, which include customers, the local community, and the government, are all critical aspects to the company's growth in the future. As a result, Ms. Shahira must consider social and environmental impacts of her decisions, in addition to the ways that they will make an economic impact to her business.

Chapter summary

This chapter presents the types of global challenges that Ms. Shahira's business could be presented with in the future. As she has done so effectively in her home country, internationally Ms. Shahira has the opportunity to grow her company, and even present her model to other small entrepreneurs to integrate into their businesses. It is important to note however, that the issues discussed only begin to present the common challenges among new entrepreneurs. This is just an introductory start into the journey of extending a small business into new, international markets.

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14. International business for the entrepreneur

The Doing Business project provides objective measures of business regulations and their enforcement across 181 economies and selected cities at the subnational and regional level.