**The Global Business Environment**

Objective A Describe the impact of the global environment on business.

Student Guide

It’s a Small, Small World

Here’s a word you’ve probably heard many people use—globalization. But, you might not have stopped to consider what it really means. Some consider it a purely economic term—companies expanding their operations across the world, regional economies becoming intertwined, businesses bringing in resources from other countries, etc. Though globalization certainly has a great impact on the economy, the concept encompasses much more than just money and business.

**Globalization** is the rapid and unimpeded flow of capital, labor, and ideas across national orders. The result is that various regions across the globe now have integrated societies, cultures, and economies— this is due to methods of communication, transportation, and trade becoming faster and more efficient all the time. Globalization has changed more than just business—it has changed everything. It has changed the way we think, the way we communicate, the way we travel, the way we live. If you follow a Spanish soccer club, look up South American recipes online, or transfer money from your checking account to an organization that helps orphans in Africa, you’re a living example of globalization in action. The world has become “smaller,” more connected, and more accessible.

Most experts agree that the pace of globalization is quickening. In recent years, terrorism threats have put a slight damper on economic globalization, making international trade somewhat more difficult and costly. Nevertheless, the phenomenon is unavoidable. Successful businesses learn to adapt to it and use it to their best advantage.

The short film “Globalization...Who Cares?...You Do!” provides insight from experts on what globalization means for the economy. You can watch it at <https://wetheeconomy.com/films/globalization-who-cares-you-do/>

What happened?

If you speak to one of your grandparents or another older family member, s/he will likely tell you that the world has changed very quickly in his/her lifetime. What are some of the causes of this rapid globalization? Let’s consider a few:

*The introduction of new technologies.*

Without a doubt, the main cause of globalization has been the swift introduction of new technological innovations, mainly the Internet. It is literally the “World Wide Web,” connecting people and businesses across the globe. Not only does the Internet connect people, it connects them fast. You can message a friend in India and receive her reply instantly. Or, you can sign into Skype and chat effortlessly with your uncle in London. The Internet has created a flow of ideas and communication that circles the planet, and it has changed the way businesses think and operate. Though transacting business online presents some unique challenges, it also presents great opportunities.

The Internet isn’t the only technology that has contributed to globalization, though. Consider inexpensive worldwide telephone service. Long distance fees used to be a major consideration for people or businesses wanting to make an overseas call. Today, with international cell phone plans and VoIP (Voice over Internet Protocol) services, connecting with family, friends, and colleagues abroad is much more affordable.

Wireless and remote connections make the world seem a little smaller as well. You might be in the New York office, but you can still log into the Vancouver office’s network to access the files you need for this morning’s meeting. You can use your iPhone to check your email, browse through Facebook or Instagram, get live updates of college football scores, and laugh at the latest YouTube videos—all of this in the palm of your hand, anywhere you choose to go. There’s no doubt that technology has significantly changed the world and contributed to rapid globalization.

*Faster and more accessible modes of transportation.* The Internet and other technology connect the world in the virtual realm, but the planet is now more connected in the physical realm as well. Think about it—the Wright brothers’ first flight occurred just a little more than 100 years ago. Back then, the idea of flying was little more than a dream. Today, flight is accessible to much of the world’s population. A person can board a plane in Chicago and land in Athens, Greece, only 15 or 16 hours later. The ability to travel more freely contributes to the spread of culture and ideas throughout the world, and it also makes it easier to conduct business on an international level.

Faster ships, better trucks, and stronger **infrastructures** (basic roads, services, utilities, etc.) have also contributed to more efficient transportation of goods throughout the world. Americans can buy cheese from France, Australians can buy motorcycles from Japan, and Italians can buy diamonds from Israel. You don’t have to live in a certain region of the world to experience its bounties or its culture. This wasn’t the case in past decades. As you can see, advances in transportation have greatly encouraged the rise of globalization.

*Lessened political barriers between countries.* You might not think of countries such as Russia or Romania as being fundamentally different from yours, but just a generation ago, these nations and many others were sealed off from the rest of the world behind the **Iron Curtain** of communism. There was no free flow of ideas or trade between these regions and the rest of the globe. As a matter of fact, the world was in a state of tension known as the **Cold War**—many were afraid that, at any moment, fighting might erupt between West and East. After the fall of communism in many of these countries, the lines of communication and financial exchange became open. Today, the United States has friendships and trading partnerships with most of these formerly closed nations. Though there are still countries, such as North Korea, that restrict and resist outside influence and trade, the world is much more politically and economically open than it used to be.

Globalization and business

Rapid globalization has had a major impact on businesses throughout the world. In some ways, the trend has been very positive, and in other ways, it’s been negative. Let’s take a closer look at some of the ways globalization has influenced business.

*Advantages.* Experts tend to agree that, for the most part, globalization has brought positive changes to the business world. When businesses can enter new markets, they have greater opportunities to succeed and to make money. Even a small business now has the ability to sell its products all over the world. Businesses can also save money and cut down on costs when they have access to a greater variety of resources or can move their operations to more affordable locations. Free exchange of ideas contributes to greater business innovation as well. The ideas of German engineers may influence engineers in the U.S. Breakthroughs in pharmaceutical research made in Canada may spur similar breakthroughs in Europe. Workers may be thousands of miles away from one another, but with the help of modern technology, they can collaborate as if they’re sitting at the same table.

Keep in mind that globalization has brought advantages to consumers as well as businesses. We now have a bigger and better variety of choices for the products we buy than at any other time in history. If you don’t like the selection of basketball shoes at your local mall, you can always go online and order something you like better. If you don’t want to attend college in your home state of North Dakota, you can always apply to the Sorbonne in Paris. As the world has gotten “smaller,” our choices have become almost limitless.

*Disadvantages.* Though the endless choices present in a globalized world are an advantage for consumers, they can often be a disadvantage for businesses. Globalization escalates competition to fierce levels. While this keeps prices down for consumers, it can make it difficult for some businesses to succeed. For example, a small, local grocery store has trouble competing with the resources of a major multinational corporation such as Walmart.

Another disadvantage of globalization is known as **brain drain**. This term refers to a country or region losing its most talented, educated employees to jobs in other countries. These workers might leave their home nations because of war or political instability or simply because of a lack of opportunities there. While the ability to work anywhere and seize the best available positions is an advantage for employees, it can be potentially damaging for their native countries.  Developing nations have little hope of establishing strong economies without capable workforces. Alexsandar Jevtic expands on the topic of brain drain in his article “Eleven Countries With Highest Brain Drain,” available at <http://www.insidermonkey.com/blog/11-countries-with-highest-braindrain-366967/>

For a more in-depth look at some of the disadvantages of globalization, read Gail Tverberg’s article “Twelve Negative Aspects of Globalization” at <http://oilprice.com/Finance/the-Economy/12-Negative-Aspects-of-Globalization.html>

Not just yet

Though it may seem as if the world is becoming one large “melting pot,” there are still plenty of barriers maintaining distinctions between specific countries and regions. The most obvious one of these is language. International calls may be cheap, but if you don’t speak the same language as the person on the other end of the line, you’re out of luck! More and more people around the world are learning multiple languages so that they can communicate more freely. The most popular second language is English. About half of all Internet exchanges take place in English.

Language differences may be a barrier to globalization at the moment, but this might not be the case forever. James Gould-Bourn explores the introduction of an exciting new technology in his article “In-Ear Device That Translates Foreign Languages in Real Time.” You can read it at <http://www.boredpanda.com/real-time-translator-ear-waverly-labs/>

Businesses can also receive quite a bit of backlash in their home countries due to the practice of **offshoring**. Offshoring jobs and even moving operations to countries with lower costs can save companies millions of dollars—but it can also cost thousands of domestic jobs. This can put businesses in a tight spot, both financially and ethically.

Lastly, some people say that the rapid globalization the world has experienced has created a negative impact on the environment. It isn’t increased trade that degrades the environment; rather, it’s the greater amounts of production being spurred on by those trade increases. Increased production has had harmful effects on our air and water supplies and has also contributed to the rapid depletion of many natural resources, such as forests and fossil fuels. Growing awareness of environmental problems has created an atmosphere in which businesses may come under fire for their environmental practices. No company wants to suffer the bad publicity that comes with being labeled as a “polluter.” Though taking measures to protect the environment may be a financial disadvantage to businesses in the short run, the best choice in the long run is to preserve both their reputations and the planet.

Another natural barrier between countries and regions is sheer distance and geography. Despite free trade, email, and affordable airfare, the life of a teenage boy living in New Orleans is never going to be similar to the life of a teenage boy living in the mountains of Nepal. There will continue to be regions of the world that remain largely untouched by globalization—native tribes living in remote South American rainforests, for instance. Though the world is getting “smaller,” there will always be thousands of miles between Miami and Moscow.

Cultural differences still divide us as well. **Culture** refers to a region’s unique customs or traditions—food, clothing, religion, education, family units, business practices, etc. People in Mexico dress differently than people in Saudi Arabia do. Japanese employees approach business meetings with a much different mindset than American employees do. World cultures have been developing over thousands of years. Globalization may connect and overlap them, but it’s unlikely that the phenomenon will wipe them away.

Other barriers between nations are political climate (some nations are politically unstable and, therefore, not popular for trade or travel), infrastructure (some countries or regions have poor roadways and transportation systems and are difficult to travel through or do business in), and **nationalism** (a sense of pride in one’s own country that can create a resistance to outside influences).

Summary

Globalization is the rapid and unimpeded flow of capital, labor, and ideas across national borders. It has occurred as the result of the introduction of new technologies, faster and more accessible modes of transportation, and lessened political barriers between countries. Advantages of globalization are greater opportunities to make money, reduced costs, more innovation, and greater choices for consumers. Disadvantages include increased competition, brain drain, backlash from offshoring, and environmental degradation. Natural barriers still exist between different countries and regions, including language differences, distance and geography, cultural and political differences, infrastructure, and nationalism.

No one thinks that paying taxes is fun—but doing so is often necessary to support important government services, such as police and fire protection, road improvement, and public education. Some companies find that they can lessen their tax burdens by organizing in a different country with low or no taxes, known as a “tax haven”. This can save the company a lot of money, but it can also cost its true home country a lot of tax revenue. There are certain laws regulating the use of tax havens, but they are legal. Are they ethical, though? What do you think?

Objective B Describe ways in which businesses enter foreign markets.

Go Global

Expanding a business internationally can involve a great deal of time, effort, and money. So, why do so many businesses go to all the trouble? Let’s take a look at some of the reasons for a company to “go global”:

*To make more money.* A main reason to expand internationally is the opportunity to make more money. Let’s say you start a business making custom photo frames. At first, your customers are family and friends. Then, as word spreads about your talent and you receive more orders, you decide to rent a booth at the local farmers’ market and to sell your products in a few boutiques around town. These methods of expanding your business should help you create a bigger profit. This is what domestic businesses do, on a much larger scale, when they expand their companies to include overseas markets.

*To remain competitive.* Businesses are sometimes forced into entering foreign markets for competitive reasons. If a competing company is expanding globally, the business might have to take similar steps to remain competitive and hang on to **market share**. Consider Coke and Pepsi—two strong brands found in almost every country on the planet. What would have happened if Coke had decided to expand internationally, but Pepsi had kept selling its products only in the United States? Clearly, Coke would have conquered the global soft-drink market.

*To build brand value in new and expanded target markets.* Entering foreign countries allows businesses to reach new and expanded target markets. Reaching a new target market can help a business to make a bigger profit, stay competitive, and build strong **brand value**. A business has strong brand value when it earns a reputation for quality, integrity, etc. Expanding overseas often causes the public to view a company as being serious about its products and financially stable.

Learn more about how tech giant Apple approaches globalization in Françoise Hovivian’s article “Globalization: Apple’s One-Size-Fits-All Approach.” You can find it at <http://www.brandquarterly.com/globalization-apples-one-size-fits-approach>

*To find new resources.* A company may expand internationally in an effort to find new, better, or less expensive resources. These resources may be human resources—manual labor in developing countries is much cheaper than it is in developed countries, for instance. Or, these resources may be natural resources. An American plant grower, for example, may need to purchase land and facilities in a tropical country to grow certain varieties of flowers.

*To diversify and save on taxes.* Wise investors spread their risk out among a number of different stocks and industries. In the same manner, businesses can enter foreign markets as a method of financial diversification. Operations in one region of the world may fare better than other regions during tough economic times. Another reason companies may expand overseas is to find better tax rates. Common **tax havens** include the Bahamas, Hong Kong, and Switzerland. For more on tax havens, see <http://www.investopedia.com/terms/t/taxhaven.asp?layout=orig&adtest=5noninfinite>

Before you start

As you know, entering foreign markets is often a serious investment of time and money for a business. Before expanding, the business should conduct thorough research and planning. It should conduct market research, just as it did before starting its domestic operations, looking closely at:

• Product(s) — They may need to be altered or redesigned to be appropriate for the new market(s).

• Price — It will probably need to be adjusted based on currency exchange rates.

• Distribution systems —They will likely be more complex.

• Promotion —Many times, promotional messages must be adapted to make sense in new markets.

Ready, set, expand

There are many different ways for a business to enter foreign markets, ranging from relatively easy to expensive and complicated. Here’s a closer look at some of these methods:

*Exporting.* Selling domestic goods in foreign countries is called exporting. Let’s say you run a business and corresponding website dealing in rare comic books. If a customer in Norway purchases a book online, you’ll ship it to her/him. That’s exporting. Exporting goods is one of the least risky ways to enter foreign markets. It’s also one of the least expensive, since the business doesn’t have to pay to establish operations overseas. Exporting does have its disadvantages, however. Shipping costs can be high, and set-up in certain industries can become complex.

*Licensing.* **Licensing** occurs when one company allows another to produce and market its products in exchange for **royalties.** For example, a manufacturer in Singapore may pay Kraft Foods for the right to use the Planters name and logo on the peanuts it sells. Kraft may receive a one time licensing fee as well as a percentage of all sales.

Like exporting, licensing is a great way to enter a foreign market at low cost and relatively low risk. The danger, though, can lie with the licensee—if it doesn’t produce goods up to the licensor’s standards of quality, the licensor’s reputation can suffer damage, which can ultimately translate to financial loss.

*Franchising.* A **franchise** is a contractual agreement between a parent company and a franchisee to distribute goods or services. Franchising is very common in the restaurant business. To open a McDonald’s franchise, for instance, you apply to the company and prove that you have both the money and experience to run a restaurant. You can then operate a McDonald’s location under the guidance and regulation of the corporate headquarters (see <http://www.aboutmcdonalds.com/mcd/franchising/international_franchising.html> for more information). There are many companies that offer franchise opportunities all across the globe. Franchising can be a great way for businesses as well as entrepreneurs to enter foreign markets. The disadvantage is that setting up a franchise can be quite expensive, and it can also be risky in an untested foreign market.

*Forming joint ventures or strategic alliances.* An arrangement that involves two or more businesses entering into a relationship by combining complementary resources such as technology, skills, capital, or distribution channels for the benefit of all parties is called a **joint venture** or a **strategic alliance**. These types of partnerships are common in the computer and automobile industries.

**H**ow has globalization affected businesses in your town? Think about your place of employment, or talk to your parent or guardian about where s/he works. How have advances in technology and transportation influenced the way the company does business? What have the advantages and disadvantages been? Is the company operating in any foreign markets? If so, what methods has it used to enter those markets?

1. Why do businesses choose to enter foreign markets?

2. What are the methods businesses can use for entering foreign markets?

Entering a foreign market can be risky and expensive, but forming a joint venture with another business reduces those risks and costs by allowing them to be shared. Forming a joint venture with a company that’s already established in the foreign market can be even better—it creates a competitive advantage by providing immediate access to and knowledge of the market. There are some disadvantages as well. Joint ventures can be complex to set up and require a high level of commitment from all the companies involved.

Valerie Demont and Soumya Sharma give more insight into the risks and rewards of international joint ventures in their article “How to Reduce International Joint Venture Risk.” You can find it at <http://ww2.cfo.com/global-business/2016/03/overcome-international-joint-venture-risk/>

*Creating wholly owned subsidiaries.* A business can make a direct investment into a foreign market by creating a **wholly owned subsidiary**. There are two ways that a business can do this—by purchasing an existing firm in the market or by building a new facility there. Either way, the parent company completely owns and controls the subsidiary. Complete control is an advantage; however, with complete control comes complete risk.

*Establishing multinational firms.* A **multinational firm** is a company that operates on a worldwide scale (though it is organized under the laws of its home nation). This is the highest level of involvement in international business. Some famous multinational firms are Walmart, General Electric, and BP. Multinational firms have almost unlimited potential to build brand value and make money; however, they also incur a great deal of risk. There is also quite a bit of public scrutiny for multinational firms to endure—consider the bad publicity of Walmart and BP alone. As globalization continues, however, multinational firms will continue to have a strong presence in the world economy.

Summary

Businesses enter foreign markets to make more money, to remain competitive, to build brand value in new and expanded markets, to find new resources, and to diversify and save on taxes. Before expanding into foreign markets, businesses should conduct careful research and planning. Methods of international expansion include exporting, licensing, franchising, forming joint ventures or strategic alliances, creating wholly owned subsidiaries, and establishing multinational firms.