Vignettes in Global Business

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Introduction

In the September 15, 2014 minutes of the East Michigan District Export Council (EMDEC), Terry Kalley had remarked, “The DEC website is an ongoing project, and we can really do with DEC members writing articles for the website.” In the January 20, 2015 (which unfortunately I could not even remotely attend), Richard Corson “reiterated the importance of focusing on the (educational) role of the EMDEC…, and away from administrative tasks” after Noel Nevshehir presented the following highlight based on a trade mission to Saudi Arabia and the UAE. He stated “there are issues with trade due to theocracy and Sharia law. Obtaining a visa is problematic and costly ($1,000). It takes multiple agencies to process each visa, and women attending mission needed permission from the religious police to attend meetings and cannot travel without a male escort. He emphasized that the potential for trade deals was positive but dependent on connections within the monarchy. Dubai and Saudi Arabia are in a position to diversify, and there is potential in defense, automotive, and IT.” The most recent minutes (April 23, 2015) is chock full of details on USEAC (United States Export Assistance Centers) activities such as the rural initiative, educational and other trade missions, automobile team training and match-making events, technological university, OPIC, EXIM, NASBITE, and NAFTA and BIS workshops and conferences; and discussions on TPA and TPP, and China, Russia and the US contemporary new Silk Road initiatives.

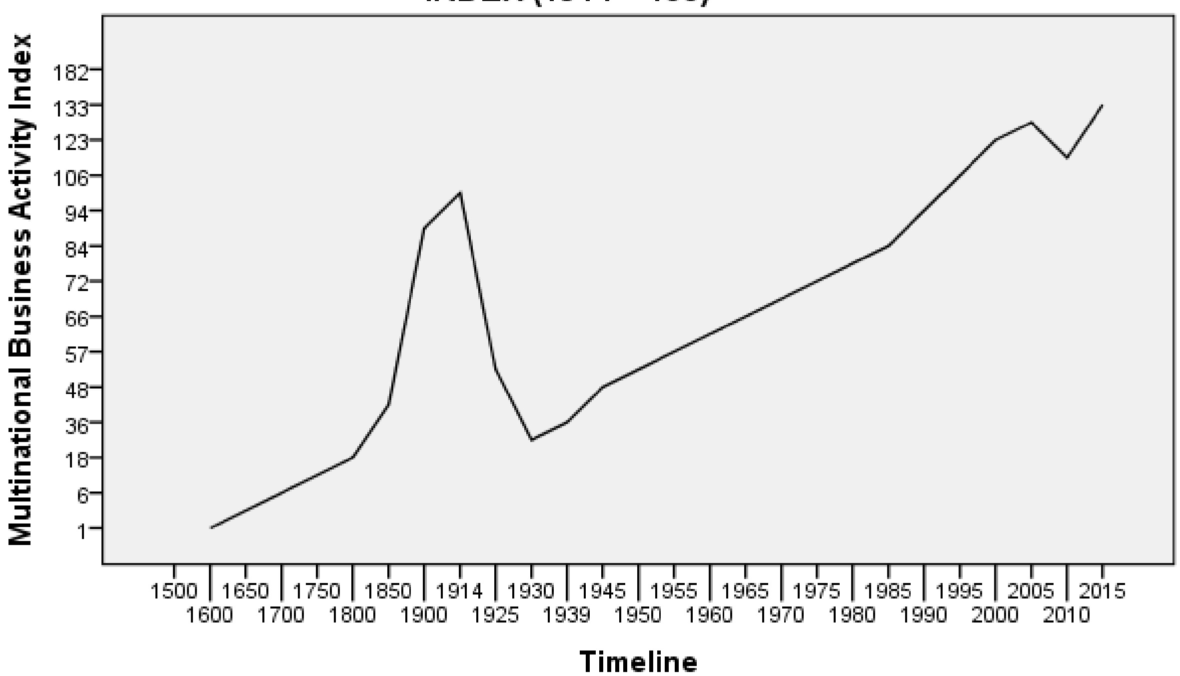
In the meantime I began preparing for the *first session* (three contact hours) of my Oakland University Fall 2015 Graduate International Marketing Class (where I begin to introduce my students to the global business environment and provide a flavor of what is to come in the rest of the term regards global business and marketing). It struck me that this might be the opportunity for me to fulfil my commitment to the article mentioned above as well as give the EMDEC a flavor of the complexity of contemporary global business, probably way beyond what our global business immersed DEC colleagues impute in their day to day execution of the trade. The second purpose of this article is to determine if we can then evolve an EMDEC initiated educational curriculum that would serve the advanced needs of our DEC members while also charting out a systematically layered global business curriculum that DECs can implement to train their clientele on the subtleties of doing business around the globe.

The multinationalization of commerce through human history

The contemporary global environment must be viewed in the context of the multinationalization of commerce throughout human history. Ours is not the first wave of multinationalization of commerce. The two most recent waves of globalization of commerce began in the early 1600s. The most recent wave began in the early 1950s. It was immediately preceded by a wave that lasted from the 1600s through to 1914. This period was called the golden age of multinationalization of commerce. Trade and business did not reach their pre-1914 levels until the early 1990s when growth in world trade again started growing markedly faster than GDP[1].

Figure 1: Multinational Business Activity

INDEX (1914 = 100)



The decades before the first world war were considered to be the Golden Age for multinational business activity. Trade and business did not reach its pre-1914 levels until the early 1990s when growth in world trade again started growing markedly faster than GDP.

SOURCE: Original source of time series data (until 2005) unknown. Recent data have been added to illustrate the idea.

As in the sciences and the arts, commerce benefitted from constant improvements and innovations in information, communications, infrastructure, transportation, and technology over millennia. When we in the United States recite the national anthem and intone “rockets’ red glare, bombs bursting in air”,

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[1] Teresa Gramm, “Development of Trade Institutions and the Advent of Globalization Since the End of World War II,” Routledge Handbook of Major Events in Economic History, eds. Parker and Whaples, p. 351. As cited in Carl Strikwerda, “The First World War in the History of Globalization,” Legacy of World War I Conference Chestnut Hill College November 14-15, 2014.

Also refer to: Yair Aharoni, Ravi Ramamurti (2011), The Evolution of Multinationals, in Ravi Ramamurti, Niron Hashai (ed.) The Future of Foreign Direct Investment and the Multinational Enterprise (Research in Global Strategic Management, Volume 15) Emerald Group Publishing Limited, pp. 113 – 135.

And: Michael D. Bardo, Barry Eichengreen, and Douglas A. Irwin (1999), “Is globalization today really different than globalization a hundred years ago?,” NBER Working Paper No. 7195, June, pp. 1 - 75.

we are referring to the rocket technology developed by an Indian ruler Tipu Sultan against the British who perfected them to use against us.

Arguably the first formally acknowledged multilateral commercial trade agreement was between Britain, and its American and Indian colonies to ship ice from Boston to Calcutta. In the most recent wave of multinationalization, organizational structures were innovated to deal with the increasing levels of complexity of doing business globally.

Contours of Contemporary Globalization

Common wisdom holds that we are in a globalized world; though there is a question of how globalized the world is? [2]. Globalization refers to the growing interdependence of countries resulting from the increasing integration of trade, finance, people, and ideas in one global marketplace. International trade and cross-border investment flows are the main elements of this integration[3]. Globalization has been facilitated by (1) technological advances that have lowered transportation, communication and computational costs allowing for setting up of different phases of production in different countries[4], (2) the liberalization of trade and capital markets [5]and (3) the emergence of a "global culture", heavily American in origin, structure and content, as a result of the increased mobility of individuals and groups across countries.[6]

In a review of Hirst and Thompson's thesis regarding globalization, Perraton [7] neatly summarizes Hirst and Thompson's conclusions as follows: (1) that contemporary levels of international integration fall short of the Gold Standard period; (2) genuinely global companies remain exceptional; (3) capital mobility is not shifting economic activity to developing countries wholesale; (4) international economic activity is primarily regional rather than global; and that (5) international economic activity is sanctioned by nation states and remains subject to their political power.

The following were the takeaways during a discussion on the impact of de-globalization during the World Economic Forum in 2012[8]:

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[2] Hirst, Paul Q. and Grahame Thompson (1996, 1999, 2009) Globalization in question: the international economy and the possibilities of governance, Publisher 1996 Polity Press 1999 Wiley-Blackwell, 1999 ISBN 0-7456-2164-3,ISBN 978-0-7456-2164-7, Polity Press, Cambridge 2009 9780745641522 (pb) as cited in http://en.wikipedia.org/wiki/Globalization_in_Question.

[3] http://www.worldbank.org/depweb/beyond/beyondco/beg_12.pdf p. 66.

[4] ibid.

[5] ibid.

[6] See for example, Mel Van Elteren, "Cultural Globalization and Transnational Flows of Things American, in (ed.) Piotr Pachura, The Systemic Dimension of Globalization, http://cdn.intechopen.com/pdfs-wm/17421.pdf, pp. 149 – 172.

[7] Perraton, Jonathan (2001), "The global economy: myths and realities," Cambridge Journal of Economics, 25 (5): 669 - 684. doi: 10.1093/cje/25.5.669

[8] http://reports.weforum.org/outlook-2013/the-future-of-globalization/

- "Globalization and easier access to information and disclosure are too often seen as solely positive, whereas they are also creating a world that is more volatile with increased economic uncertainty.
- In the current volatile environment, globalization and deglobalization may alternate, and even co-exist. Across localities, countries, regions, but also sectors and industries, globalization, and deglobalization are considered less and less mutually exclusive.
- There is a loss of trust in the ability of governments, even if democratically elected, as well as business leaders to resolve crises and improve lives in their communities.
- Success of global governance as a central pillar of globalization is much more outcomes-driven than process-driven. Trust will only be earned if solutions are delivered.
- Globalization is continuing in migration, global food production systems and the tertiary education sector (student flows, global outreach of universities). However, examples of de-globalization can be seen in the manufacturing and production sector."

Hierarchy Structure of World Trade

Another area of intense debate in the globalization issue is the contemporary status of developed and developing countries in the globalization of markets. Developing countries are playing an increasing role in world trade. In 2006, they accounted for 30% of world exports, up from 19.5% in 1996[9].

By using three colors, the Economics Web Institute [10] depicted the world trade flows as illustrated in Figure 2 (Page 5):

- the "core" - in red - constituted by countries that are only in Dominant position,
- the "periphery" - in green - constituted by countries that are only in Dominated position,
- the "semi-periphery" - in blue - constituted by countries that are dominant with respect to one or more countries, but that are dominated versus one or more other countries.

Taxonomies of International Strategy and Organization

As shown below in Table 1 (Page 7), over the decades several attempts have been made to classify the evolution of complex organizations to meet the demands of global commerce. Obviously the terminology used to describe the stages of internationalization depends heavily on the author's disciplinary training. These perspectives varied from a study of industries, a study of firm strategies, how firms were organized, managerial attitudes and cognitive orientations, etc. Typically, three stages are recognized: early stages of internationalization, deeper involvement in the multinational business activity, and total immersion in global business activities.

While a layperson may view the terms international, multinational, transnational and global as essentially synonyms, the terms have vastly different meanings, interpretations and import in the conduct of business worldwide. Four closely intertwined aspects guide how one deals with the complexity of international business: stages, strategy, manager's cognitive orientation, and organization

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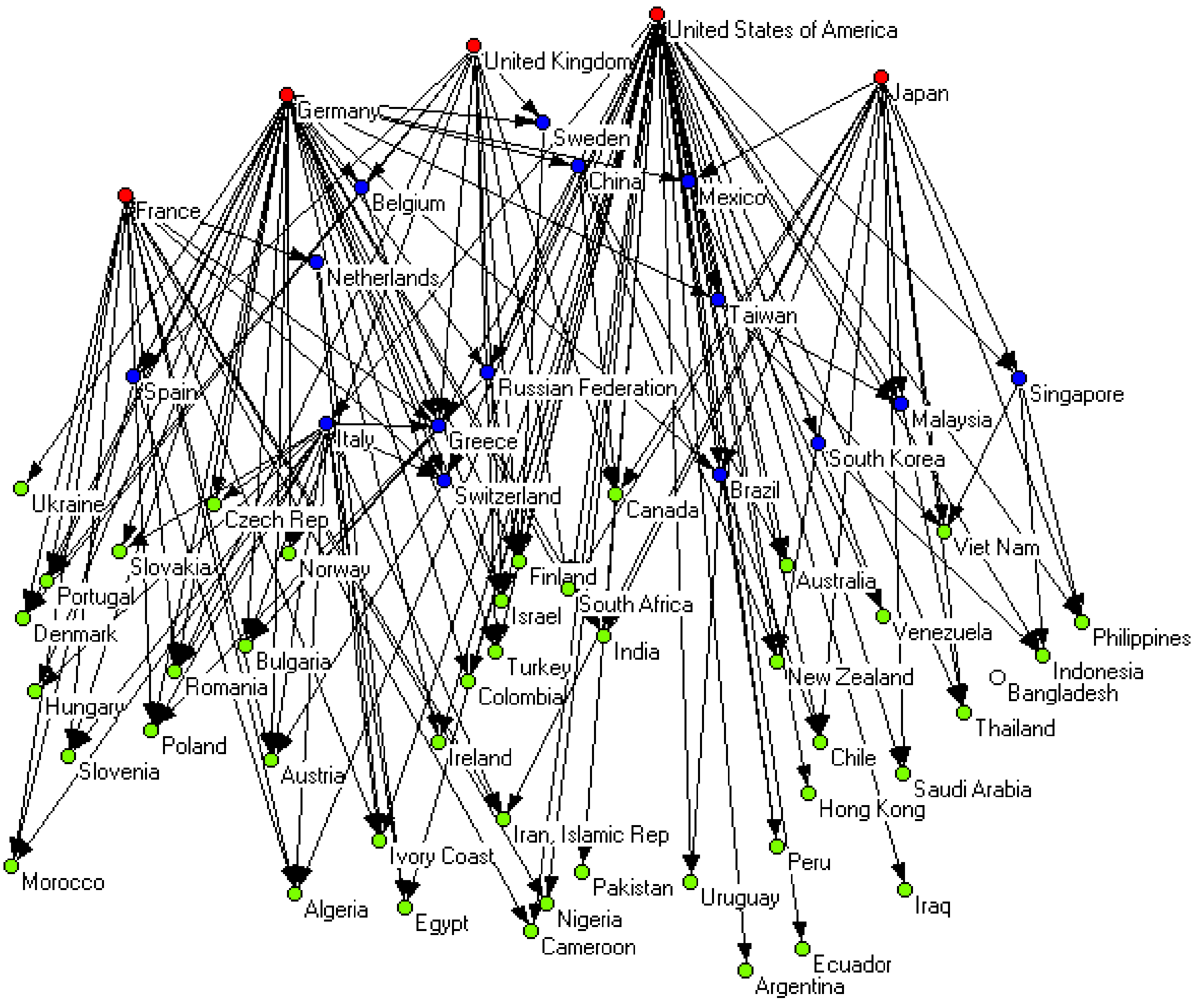
9 Shimelse Ali and Bennett Stancil (2009), "Developing Countries Changing the World of Trade," http://carnegieendowment.org/ieb/2009/11/19/developing-countries-changing-world-of-trade

10 http://www.economicswebinstitute.org/essays/tradehierarchy.htm

Figure 2: Map of world dominance relations



evolution. Table 2 (Page 7) illustrates this intricate relationship. It needs to be emphasized that for optimal outcomes stages, strategy, cognitive orientation and organization structure have to be perfectly aligned. That is, if the market/industry is in the multinational stage, firms ought to use a multi-domestic strategy, managers ought to be polycentric and a hierarchical organization structure would be most productive.

Again, while most discussions on global business include the terms international, multinational, global and transnational and usually these terms are presented to signify stages of internationalization; the meanings and order of the terms are not consistently applied[11]. The lack of consistency in the definitions is the result of the disciplinary foci of the various authors plus the fact that in the early 60s, the United Nations decided to coin the term transnational as an essential synonym for multinational but which would include all kinds of organizations including and beyond the strictly commercial.

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[11] See for example: http://www2.econ.iastate.edu/classes/econ355/choi/mul.htm.

My personal preference for the stages of internationalization includes the following in order: purely domestic, exporting, international, multinational, global and transnational[12]. Transnational in this hierarchy is the most evolved (even beyond global) organizational structure where the organization transcends nationality[13]. Transnational organizations, in this context, are “nationality blind.” The resources within a transnational organization would not be bound by nationality. Its employees at the operational, supervisory, tactical and strategic levels would not be handicapped by nationality. Even at the board level the organization would be “nationality blind.” Such transnational organizations would have multiple headquarters, each specializing in a particular area of expertise. As should be obvious, transnational organizations in this interpretation should be relatively rare. Only two organizations (of which I am aware) have formally claimed to be transnational in this sense. The first was the Swedish-Swiss-US firm ABB. More recently in the early 1990s, Coca-Cola declared itself to be a transnational organization (Marketing HQ: US, Finance HQ: Brussels, and R&D HQ: Japan). Neither of these organizations is currently actively promoting its “transnational status.” It should also be obvious that currently non-profit, non-business organizations are more likely to reach the transnational pinnacle. An example would be a confederation of global professional associations (say an organization for the worldwide medical or accounting fraternity).

International Trade and International Business

International trade is the exchange of goods and services between countries and consists of exports and imports. “Exports and imports are accounted for in the current account of the country’s balance of payments… International trade not only results in increased production efficiency for both countries involved in the trade (due to absolute and comparative advantage) but also facilitates countries to participate in a global economy, encouraging the opportunity for foreign direct investment (FDI), which is the amount of money that individuals invest in foreign companies and assets[14].” International business includes international trade and foreign production (through FDI). FDI allows for the entry of foreign currency and expertise in an economy thereby potentially increasing host country’s ability to become more efficient and competitive, raise its employment levels and increase its gross domestic product (GDP)[15].

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12 Even though there is ambiguity in the term transnational (transnational which means beyond national; allowing it to be a stage anywhere between international and multinational, multinational and global or beyond global), I prefer it to the use of another term that has sometimes been used in the literature – namely, supranational. Unfortunately, supranational has not gained traction in the literature.

13 Robinson, Ricard D., John P. Dickson and John A. Knutsen (1997), “From multinational to transnational?,” The International Executive (now the Thunderbird International Business Review), January/February, Volume 39, Issue 1, pp. 35 – 54.

14 http://www.investopedia.com/articles/03/112503.asp

15 ibid.

Table 1: Taxonomies of International Strategy and Organization

Porter (1986)	Prahalad and Doz (1987)	Hedlund (1986, 1990)	Bartlett & Ghoshal (1989)	Kindelberger (1969)	Perlmutter (1969)	Parameswaran (2015)
Industry Perspective	Firm Strategy Perspective	Firm Organization Perspective	Firm Organization Perspective	Managerial Attitudes Perspective	Managers' Cognitive Orientation Perspective	International Business/Marketing Perspective
STAGES OF INTERNATIONALIZATION						
Simple global	Global integration	Hierarchy	Global	National Firm with international operations	Ethnocentric	International (Exporting)
Multi-domestic	National Responsiveness	Hierarchy	Multinational	Multinational	Polycentric	Multinational
Complex Global	Multifocal	Heterarchy	Transnational	International	Geocentric	Global
						Transnational (Beyond Global) and Born Global

(Source: Small Firms in Global Competition Edited by Tamir Agmon & Richard L. Drobnick; 1994 Oxford University Press. Last column added by author)

Table 2: Relationship among Stages, Strategy, Cognitive Orientation and Organization

Stages	Strategy	Cognitive Orientation	Organization Structure
International	Domestic Extension	Ethnocentric	Hierarchy
Multinational	Multi Domestic	Polycentric	Hierarchy
Global	Global	Regiocentric or Geocentric	Heterarchy or Networked Organization
Transnational	The World as One	Geocentric	Heterarchy or Networked Organization

International trade and foreign production activities are managed on a global basis. Extensive international penetration of foreign markets by companies is called global reach. The growth of multinational corporations (MNCs) and intra-firm trade is a major aspect of global markets.

As far as international trade in 2013 is concerned, the annual global trade in goods and services amounted to $18.6 trillion and $4.7 trillion respectively[16].

By comparison, the FORBES Global 2000 for 2015 lists the following statistics[17]: "(The 2000 largest global) companies hail from 61 countries and account for combined revenues of $39 trillion, profits of $3 trillion, with assets worth $162 trillion, and a market value of $48 trillion." The 2000 largest global firms were estimated in 2012 to employ 83 million people worldwide[18].

The U.S. government defines a multinational corporation (MNC) for statistical purposes as a company that owns or controls 10% or more of the voting securities, or the equivalent, of at least one foreign business enterprise. In 2012, it was estimated that there were 80,000 multinational corporations (MNCs) worldwide with 800,000 affiliates in foreign countries[19]. Dozens of the largest MNCs have revenues over $100 billion. It is estimated that MNCs account for 1/3 of the world exports.

The statistics cited above for international trade and international business are dwarfed by the daily international financial flows that exceeded $5.3 trillion per day in 2013 from $4.0 trillion in 2010 and $1.9 trillion in 2005[20]. The weekly volume of international trade in currencies by far exceeds the annual global trade in goods and services.

The following statistics from the WTO Secretariat[21] is illuminating. Figure 3 shows 10-year moving averages of world trade growth, world GDP growth and their ratio. Quoting from the report, "this ratio peaked at 2.4 in 2000 but has since fallen to 1.7 in 2013. Historically, trade has tended to contract when world output has slowed, only to rebound sharply afterward. Structural factors (e.g. the spread of supply chains, the product composition of world trade, subtle protectionism, etc.) may have played a role in the declining ratio. However, given the number and severity of global slowdowns in recent years, the explanation may simply be cyclical. It is too soon to say whether something like a 2:1 relationship between trade growth and GDP growth will reassert itself once the global recovery gains traction, but this variable will bear watching in the future."

The net result of the discussion above is the increased interdependence of countries/economies and increased global competitiveness.

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16 http://unctad.org/en/PublicationsLibrary/ditctab2014d2_en.pdf

17 http://www.forbes.com/sites/liyanchen/2015/05/06/the-worlds-largest-companies/

18 http://www.forbes.com/global2000/

19 UNCTAD, 2013.

20 http://www.bis.org/publ/qtrpdf/r_qt1312e.htm

21 https://www.wto.org/english/news_e/pres14_e/pr721_e.htm

According to www.trade.gov[22], "Total U.S. goods trade was $3.8 trillion in 2013, up 47% from 2009. Manufactured goods accounted for 87% of U.S. merchandise exports and 81% of merchandise imports in 2013. Goods imports fell by nearly $8 billion in 2013, the first time since 2009. Meanwhile, goods exports rose by $33.9 billion, resulting in a $41.9 billion improvement in the trade deficit. Services exports hit a record high in 2013, up 5% from 2012 and 34% from 2009. Despite a slight decline in 2009, services exports have risen faster than services imports each year, leading to a growing services trade surplus. Services accounted for 30% of total U.S. exports in 2013."

During 1950 and 2010, global merchandise trade increased by 240 times. During this same period, US trade expanded 175-fold; the value of total US trade (exports and imports) increased from 8% of US GDP to 33%. Nearly 1 in 21 private sector jobs depended on manufactured exports. International travelers to the US supported 1.1 million domestic jobs[23]. The International Trade Administration cited a study by the Institute for International Economics which found that U.S. companies that export not only grow faster, but were nearly 8.5 percent less likely to go out of business than non-exporting companies[24]. Yet, "less than one percent of America's 30 million companies export – a percentage that is significantly lower than all other developed countries. And of U.S. companies that do export, 58 percent export to only one country[25]."

How complex is international business compared to domestic business?

If a firm is limited to operating within its national boundaries, all the firm has to do is to adapt to its native environment. Critical environmental factors[26] in contemporary business include the social (including the cultural and the ethical), the technological, the economic, the political (including legal and regulatory), and the environmental. Since the environment is native to the firm, it has been socialized[27] into it, and there is little effort expended in adapting to the home environment.

When the firm operates internationally, it has to operate in multiple countries and therefore in multiple environments (as many environments as there are countries in the mix). Moreover, while there is relatively little effort in getting socialized into its environment, there is significant effort needed to adapt to foreign environments.

The firm not only has to adapt to each of the environments in which it operates, but also has to monitor and adjust to the interactions between and among these environments (two-way, three-way, n-way). So

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[22] http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_002065.pdf

[23] The International Trade Administration's FY2012-2016 Strategic Plan, http://trade.gov/PDFs/strategic-plan.pdf

[24] http://www.trade.gov/cs/factsheet.asp

[25] ibid.

[26] Commonly referred to as the PESTLE factors.

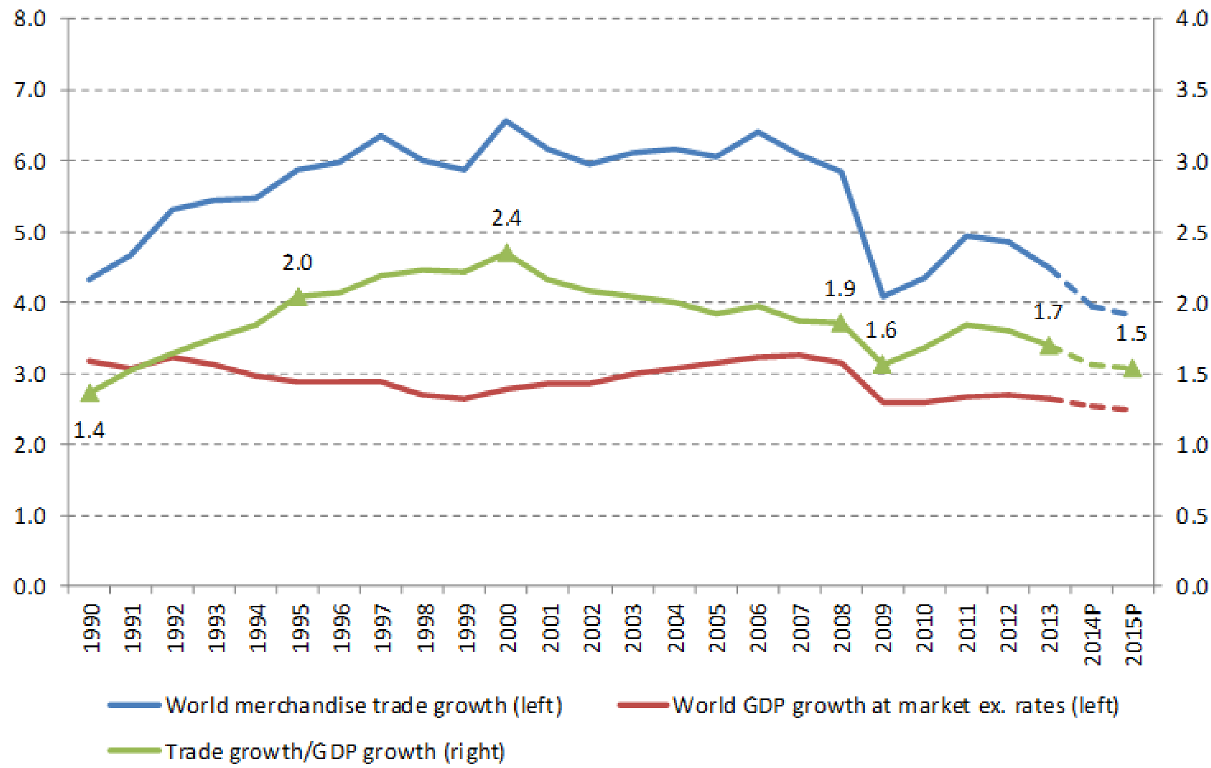
[27] When you are socialized into your environment, you learn your environmental values as an absolute and implicitly. When you have to understand and adapt to a foreign environment, you have to explicitly get accultured into it; that you learn that environment in relative terms (as a difference from your native environment).

the complexity of operating internationally is *orders of magnitude* greater than operating in a strictly domestic environment.

Suppose we are operating in 16 countries. The permutations (that is, the number of ways in which the countries may be ordered without repetition) is: 16*15*14*13*….*1 = 20,922,789,888,000. That is; there are almost 21 trillion ways we can order 16 countries without repetition. Obviously, not all the

Figure 3: 10-year moving average of world trade, GDP, and trade/GDP, 1990-2015

Average annual % change (left) and ratio (right)



a Figures for 2014 and 2015 are projections.

(Source: WTO Secretariat)

instances of the ordering has equal weight. If we assume that the countries to the left in a particular sequence exert their pull on the downstream (to the right) countries, then those instances with the marginal countries (for the firm) to the left will have significantly negligible weights when compared to when the home country or significant market countries are to the left. Let's assume that the firm decides that it will prioritize the countries and choose 3 countries as its main strategic foci; in this situation the permutation problem reduces to selecting 3 countries out of 16 that are ordered without repetition: 16*15*14 or 3360 instances. In other words, the strategic thrust of global business becomes one of choosing the appropriate permutation instances that would lead to an optimum outcome in terms of satisfying organization goals. We accomplish this task by devising appropriate strategies along the various stages of internationalization: international, multinational, global, and transnational.

- Strictly Domestic
- International: loose foreign alliances without any over-arching strategic interests. International includes any cross-border activity across 2 or more countries
- Multinational: Cross-border activities in more than two countries with over-arching strategic interests linking such activities; activity within a country still more or less independent of each other
- Global: cross-border activities across multiple countries with over-arching strategic interests; within country activities inter-dependent on activities in other countries and conforming to a global strategy. Therein lies the beginnings of a truly global orientation, and
- Transnational: A true one-world focus with – as far as the firm is concerned – no allegiances to any one country.

A Concluding Thought

The preceding discussion was to provide a broad overview of the realities of global business and to highlight the need to pursue it (both in theory and practice) with due diligence. A final point that I would like to make is that this commentary just examines the “tip of the iceberg.”