

The Global Business Environment

5th Edition

towards sustainability?

Janet Morrison



'The Global Business Environment encourages students to draw on complex and critical ways of interpreting the world economy. The text shows how it is essential to consider the multiple and interacting stakeholders that make the decisions that influence global business, by taking a multi-level perspective on the processes shaping, and being shaped by globalisation. Globalisation is a sophisticated phenomenon and this text succinctly captures the diverse challenges and opportunities accompanying it.' —**Dr Alexander Kriz**, *The University of Queensland Business School, Australia*

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The International Business Environment

International Business

Business Ethics



The Global Business Environment

towards sustainability?

Janet Morrison

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CASE STUDY GRID










Note: All these case studies have an international dimension. Countries shown in this grid are either the main focus of the discussion or the home country of the company.

Chapter short title	Short title of case study	Geographic focus (see note above)	Main topics	Page
1 The business in focus	Levi Strauss	US 	Branding; global markets; company stock market listing	3
	Taking a company private	US 	Entrepreneurship; public v. private companies; example of Tesla	13
	Samarco mining disaster and BHP Billiton	Brazil  Australia 	Company liability for disaster; regulation; environmental concerns; sustainability	25
	Ikea	Sweden 	Business model; changing consumer lifestyles; country differences; corporate governance; sustainability	31
2 Globalization	SoftBank	Japan 	Innovation; globalization; international investment strategy	35
	Harley-Davidson	US 	Manufacturing; location advantages; changing markets; international trade	45
	US Midwest car industry	US 	Car manufacturing; loss of competitive advantage; social impacts from the loss of jobs	59
	Zara	Spain 	Fashion industry; business model; retailing supply chains; expansion of online retailing; sustainability	68
3 Cultural environment	Qatar	Qatar 	Economic development and resource wealth; migrant labour; human rights	75
	Women allowed to drive in Saudi Arabia	Saudi Arabia 	Society and religion; culture change; human rights	86
	Russia raising the pension age	Russia 	Ageing population; social protections for pensioners; changing society	106
	South Africa	Republic of South Africa 	Social and racial divides; political reform; poverty and inequality; sustainable development	111

















Chapter short title	Short title of case study	Geographic focus (see note above)	Main topics	Page
4 Economic environment	Chinese economy slows	China 	China's economic model of state direction and market reforms; negative impacts of China's rapid growth	116
	Mexico's shift towards socialism	Mexico 	Socialist policies of the new government; social and economic reforms	135
	India's super-rich	India 	Indian conglomerates; business and political ties; risks of corruption; inequality	144
	Jaguar Land Rover	UK India 	Car industry in the UK; uncertainty over Brexit; shift to greener motoring	153
5 Political environment	A populist president in Brazil	Brazil 	Nationalist populism; economic development and agribusiness; risks of deforestation	158
	Political risks in Mali	Mali 	Fragile democratic state; risks of Islamic terrorism; climate change; sustainable development	173
	Setbacks to the rule of law in Poland	Poland EU  	EU concerns over weakening rule of law in a member state; independence of the judiciary	182
	Authoritarianism in Turkey	Turkey 	Authoritarian rule; weakening of democratic institutions; political divide between Muslim population and westernized urban population	200
6 Legal environment	Uber and other ride-hailing companies	US China UK   	New technology business models; regulatory issues in different locations; driver status	205
	The Costa Concordia sinks	Italy 	Legal issues of liability in the sinking of the ship; civil and criminal law	210
	AT&T and antitrust	US 	Competition law; government interventions against monopolies; the role of regulation; the risks of break-up for monopolists	223
	Facebook	US EU  	Data protection; political advertising; corporate governance; ethics; regulation of social media	235



Chapter short title	Short title of case study	Geographic focus (see note above)	Main topics	Page
7 Trade	Huawei	China 	Telecoms industry; Chinese business; global expansion strategy opposed by the US	241
	Soya beans and US-China trade	US  China 	Tariffs on imports spark trade friction; US farming interests; Chinese market for soya bean imports	260
	Canada's motor industry	Canada 	Interdependence in cross-border supply chains; impacts on communities; the new NAFTA agreement	268
	Glencore	Democratic Republic of Congo (DRC) 	Global business of trade and mining giant; mining in a conflict zone of the DRC; legal risk	274
8 Finance	Carillion	UK 	Financial collapse of a large employer; outsourcing of public services; corporate governance	279
	Funding Circle	UK 	Entrepreneurship; peer-to-peer lending; debt financing; stock exchange listing	291
	Bayer Monsanto takeover	Germany  US 	Cross-border takeover; legal and ethical issues on GM crops	304
	Argentina's financial crisis	Argentina 	Fallout from sovereign debt crisis; reforming government finances; role of the IMF; impacts of financial crisis on society	308
9 Technology	Automation	UK  Global business	Technological innovation and economic development; automation displacing jobs and causing impacts in societies	313
	Lego	Denmark 	Innovation towards sustainable plastic substitutes; competitive strategies in differing markets	317
	AbbVie pharmaceutical	US 	Patent protection and public interest; costs of medicine; the role of generic medicine	329
	Apple	US 	iPhone markets and competition in innovations; diversification at Apple; outsourcing business model and ethical issues	338



Chapter short title	Short title of case study	Geographic focus (see note above)	Main topics	Page
10 Ecology	Death of diesel	EU 	Dangerous emissions from diesel engines; VW scandal over diesel engines; carmakers changing to cleaner alternatives; role of government regulation	345
	Oil companies and reforestation	The Netherlands  Norway 	Carbon offsetting; pressures to respond to climate change; investors' influence on oil companies' sustainability strategies	363
	Saving the Taj Mahal	India 	Pollution; historic sites and surrounding communities; sustainable development	370
	Plastic waste	US  China  UN 	Growth of plastic waste in consumer society; disposal of waste; UN convention on plastic waste	373
11 Ethics and CSR	UK textile industry	UK 	Fast fashion industry; 'sweatshop' conditions; factory safety and workers' protections	378
	Gambling and football	UK 	Online betting companies; role of gambling companies in sponsoring football; ethics of promoting gambling; role of self-regulation	389
	Status of workers in the gig economy	UK 	Status of self-employed workers; issues of workers classified as self-employed when facts suggest they are not; employment protection rights	393
	Sackler and Purdue Pharma	US 	Marketing of opioids and ethical issues; lawsuits against Purdue Pharma; unease among recipients of Sackler cultural donations	413
12 Sustainable business: the prospects	10 years on from the global financial crisis	US  UK 	Assessment of recovery after the crisis; regulatory reform of banking; economic concentration in the global economy	418
	Burberry destroys stock	UK 	Brand reputation; overproduction and waste; social responsibility	424
	Bangladesh textile industry	Bangladesh 	Sustainable development; fire and safety accords by foreign brands	440
	Tech billionaires turn philanthropists	US 	Microsoft, Facebook and Amazon; market economies' evolution into market societies; tech billionaires' market-oriented approach to philanthropy	455



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Writing long books is rather a solitary endeavour for a sole author, and one that greatly impacts on family and friends. I owe special thanks to my husband, Ian Morrison, for his patience and moral support throughout the ups and downs of this project.

As with previous editions, I have turned to a host of distinguished scholars and theorists – past and present. In a world where the new is so often deemed to be better than the old, the profound insights we can glean from thinkers of earlier eras tend to be overlooked. The student might well miss out on rich resources that are easily accessible. In the course of writing this book, I have drawn on the insights and observations of respected scholars and thinkers who have been an inspiration, and who I hope will equally inspire readers. Many of their works are cited in these pages, and their discourses feature in video links included in the chapters. To all of these scholars, I owe utmost gratitude.



ABOUT THE AUTHOR



Janet Morrison, now retired, was a senior lecturer in strategic and international management at Sunderland University Business School in the UK, where she enjoyed a long career in teaching, research, curriculum development and course administration. She taught international business modules at undergraduate and postgraduate levels, including International Business Environment, Management in a Global Environment, Japanese Business and the Social and Cultural Environment of International Business. She was programme leader for undergraduate inter-

national business degrees and the MBA in International Management.

Janet's academic background goes back to her first degree (in political science and history) at Mary Washington College of the University of Virginia in the US (now the University of Mary Washington), followed by a master's degree from the University of Toronto in Canada and, later, a law degree from the University of Newcastle-upon-Tyne in the UK. She also studied in Chicago, Oxford and Nagoya in Japan.

Her published research includes articles in a range of areas, including corporate governance, Japanese business and corporate social responsibility. She is the author of *International Business* (2009) and *Business Ethics* (2015), both published by Red Globe Press.



PREFACE TO THE FIFTH EDITION

The fifth edition of this book has presented both challenges and opportunities. Changes are reshaping nearly every dimension of the global business environment. Providing the reader with coherent explanations has been a challenge, but it has also presented an opportunity to delve deeper into the transformations taking place. As always in writing a new edition, I seek not just to highlight changes, but to advance new analysis to help readers make sense of it all. This time, the changes have been momentous and far-reaching – demanding considerably more research, rewriting and new content. I have tried to maintain a systematic approach to these tasks, incorporating new content in ways that highlight continuity as well as breaks with the past. Changes can often seem sudden, when in fact they have been building up over time. The global financial crisis was an example, seemingly taking the world by surprise, but, with hindsight, it became apparent that warning signs had been overlooked. In our digitalized world, we are bombarded by the media describing this week's headline event or issue. Useful though this is, it is akin to a snapshot: it offers only sketchy contextual explanation, and leaves unanswered questions from the student's point of view. Why is this story making the headlines, and what does it mean for the future? I have sought to provide wider explanations and insights on events and topics of current relevance, with implications for the future.

Momentous changes have taken place since the last edition of this book. Capturing these changes in both businesses and societies has been a major challenge. New content covers many areas of the environment, from ecology and the economic environment to the political environment and societal issues. Topics include the climate emergency, changes in work, the power of tech giants, ongoing trade wars and the changing political environment that has seen the rise of populists and nationalists. These are some of the areas of change that are now shaping the global economy and impacting on business decision-making. I have aimed not just to 'update' chapters in a superficial sense, but to impart some sense-making overview of current trends in the many dimensions of the business environment.

Much of the strength of earlier editions has been in lucid explanations of foundation material, which remain the best basis on which to understand the environmental shifts taking place, along with their impacts on organizations. Hence, foundation concepts are still core to the book, and in some respects have been expanded. These are interpreted in new contexts and explored in new case studies which focus on the current changing environment.

The main challenges for today's businesses are encapsulated in the theme of sustainability, as reflected in the book's subtitle, 'towards sustainability?'. This brings together six related themes: individual and societal wellbeing; climate change and ecology; technological change; economic prosperity for societies; governance that promotes social goods; and financial stability. To what extent are goals of sustainability inching forward in each of these dimensions, and what should businesses, individuals and governments be doing to advance them? Probing for answers to these questions is a primary focus of the book, with a section on sustainability in every chapter.



Foremost in my thinking has been the need for meaningful engagement with the needs of a student readership, wherever in the world this book is accessed. As in previous editions, I have borne in mind the needs of students at both undergraduate and postgraduate levels, including those with little background in business studies and those for whom English is a second language. This book's clear expression and easy-to-read writing style have been highly valued by students since the book's first publication. The book's relevance to students from a variety of educational backgrounds and studying on a variety of business courses have been among its enduring strengths, which I have kept at the forefront of my approach to this new edition.

I am pleased that students and lecturers in a wide range of countries have found this book helpful, and that international students have found the text easy to read. This fifth edition has been written with this wide readership in mind. I hope that it will again prove stimulating, relevant and enjoyable for readers. New case studies on topics of broad interest should help to bring the text alive. I hope readers will be encouraged to find out more from my many recommendations for further reading. For readers familiar with previous editions, I hope the finished book will measure up to your expectations, and for those new to this book, I hope especially that student readers will find it enjoyable as well as illuminating.

Janet Morrison



INTRODUCTION

Since the last edition of this book, profound changes have taken place in the global business environment, impacting on long-held ways of thinking and patterns of doing business. They include escalating trade wars, damaging climate change impacts, the deepening power of dominant corporations, and, at the level of society, widening inequalities that threaten societal wellbeing. A result has been rising global insecurity that affects all areas of the business environment. Adding to the uncertainties, there has been a resurgence of nationalist populist leaders around the world, whose extreme nationalist agendas pose threats to constitutional governance frameworks and, more broadly, to international peace and co-operation. The image on the cover of this edition features Dalian, a port in Northeast China. A major centre for commodity trading, Dalian takes pride in its role in China's economic success. But it is now caught up in trade wars between China and the US (featured in a case study in Chapter 7). Moreover, these trade disputes are not confined to the two superpowers, but radiate out to other trading countries and their societies. Will sustainable solutions emerge to resolve these disputes and, more broadly, to alleviate the threats to global security?

A priority for the student of business and management is a sound understanding of the multiple dimensions of the business environment. This is a first step towards gaining insight into the changes now reshaping the global economy. When this book was originally conceived, the aim was to offer international perspectives that ventured far beyond those of existing business environment textbooks, which reflected limited managerial outlooks. The first edition, back in 2002, aimed to broaden that focus, geographically and culturally, adopting an approach that set it apart from competitors. Throughout later editions, it has sought to shine a light on the changes that shape international business. They have included the processes of globalization, the rise of emerging markets, and the reconfiguring of global politics, reflecting China's challenges to the US on the world stage. The fifth edition continues in this vein, probing the issues that are emerging as critical for businesses in finding sustainable ways forward.

What makes this book stand out?

Since its first edition, this book has taken a dynamic approach, blending foundation knowledge with critical discussion of the issues that relate to international business. All textbooks on this subject now take in international content, but most of this is a patchwork of chunks of knowledge, often because the books are written by a number of different people. This book is different. This text takes a systematic approach, presenting foundation theory and knowledge, from which to explore the interactions and tensions between the players in the business environment. Companies are skilled at presenting themselves and their activities in ways that show them in a good light. But that is only a partial picture. This book presents a fuller picture, shining a light on the negative as well as the positive. The reader thus gains an insight that neither texts on formal systems nor media content on particular companies can provide. Moreover, the book conveys the ways in which changes evolve, shaping business strategies and, importantly, government policies, which are now more important than ever in business contexts. The chapters present the academic



background, the current issues, the business implications and the crucial interactions with other parties, including governments, stakeholders and international bodies. No other textbook covers this ground as thoroughly. Here are four examples of how this approach unfolds:

- Who are the key players? This new edition spans business on all continents, at differing stages of development and in diverse cultural contexts – not simply as market opportunities for western businesses, but as players on the global scene in their own right. Governments increasingly come into this picture, active in global investment and seeking to attract foreign investors. Case studies reflect these trends. They feature decision-making dilemmas of executives in a wide spectrum of companies from Lego, the toymaker, to Facebook. Case studies on governance range from the dramatic changes taking place in South Africa to the populist president of Brazil.
- Why are law and politics important? It is sometimes said that law is just for specialists, to be consulted when needed. Despite their importance in shaping strategies, the legal and political environments have received only cursory attention in rival textbooks, sketching out formal systems, but not probing these influences in depth. This book offers substantive analysis of how legal and political considerations impact on business. These are considerations that arise in the formative stage of policy. Important trends in today's world include the growth in populist ideologies, the rise in authoritarian leaders around the world, and the legal challenges to businesses in numerous sectors, from the gig economy to the tech giants. Legal issues are key to much business strategy, as is the highly charged political atmosphere in many countries. This text confronts them through explanations of background in the text, accompanied by case studies.
- Many companies, large and small, feature in these pages. Who owns and controls the company in question? Why does it matter? From the first edition onwards, corporate ownership and control have featured in both the text and case studies. While other textbooks have settled for bland statements about companies taking decisions, this book has looked behind the corporate façade to ask, 'who in the company is taking the decisions, and in whose interests?' Insightful answers to these questions have never been as vital, or as revealing, as they are now. Members of the Sackler family, owners of the pharmaceutical company, Purdue Pharma, are an example, featured in a case study. Corporate governance and stakeholder issues remain prominent in this edition, reflecting the rise in critical awareness of issues of corporate accountability around the world.
- Since the first edition, a strength of this book has been a focus on human rights in business contexts. Foundation principles and human rights law are explained, and many business-related examples are presented, to demonstrate the relevance of human rights in practice for businesses in the global economy. Over the years, the relevance of human rights has expanded: the body of law has grown and there is more litigation in this area. There is now a wider variety of cases that involve human rights breaches, from forced labour to the right to join a trade union. While this gives hope for those who have suffered, the rising incidence of breaches suggests that businesses have a long way to go in applying legal and ethical principles.

Successive editions of this book have continued to stress its underlying international approach, aiming to acquaint readers with the issues and trends now shaping the global environment, and also those that are likely to feature prominently in the future. Key to this aim is attention to the academic background underpinning discussion of current



issues in each chapter, and, it is hoped, helping readers to form their own critical perspectives. As globalization has enveloped an increasing number of countries and every type of business – from agriculture to taxis – international interactions have multiplied beyond what most people would have thought possible. New players come on the international scene virtually every day, including companies, business groupings, international organizations and individual people – each of whom is capable of making a difference in the way business is conceived and carried on. New complexities can be exciting, but can also be daunting to take on board, without the appropriate background in the business environment.

How does a start-up become a multi-billion-dollar global business in just a few years? This – and many other – intriguing aspects of the current international environment are explained and explored in this new edition. This edition contains a total of 48 case studies, four in every chapter. Each chapter has an opening case study, a closing one, and two mini case studies. Six of the case studies focus on companies featured in a previous edition, with new analysis and updates. This edition, like earlier ones, takes a critical approach, reflected in the book's subtitle: *towards sustainability?*. The subtitle poses a question and elicits a range of answers. A simple yes or no is not possible, but a more achievable goal is to conceive a framework in which answers can emerge over time. The relevant evidence will be presented coherently, highlighting the strides that are being made towards sustainability, along with the setbacks. Identifying the setbacks and suggesting ways to go forward will help in answering the question posed in the title.

The global business environment: towards sustainability?

Previous editions have focused on critical themes: globalization; emerging economies; changing societies; corporate social responsibility (CSR) and sustainability. These themes remain relevant, and, indeed, all have acquired higher profiles, along with greater critical awareness, since the last edition. In this edition, they are reframed and interwoven within the overall perspective of sustainability, shown in the figure below. Throughout the chapters that follow, we will shine a light on the many diverse players in the global environment, assessing them in terms of the criteria of sustainability.

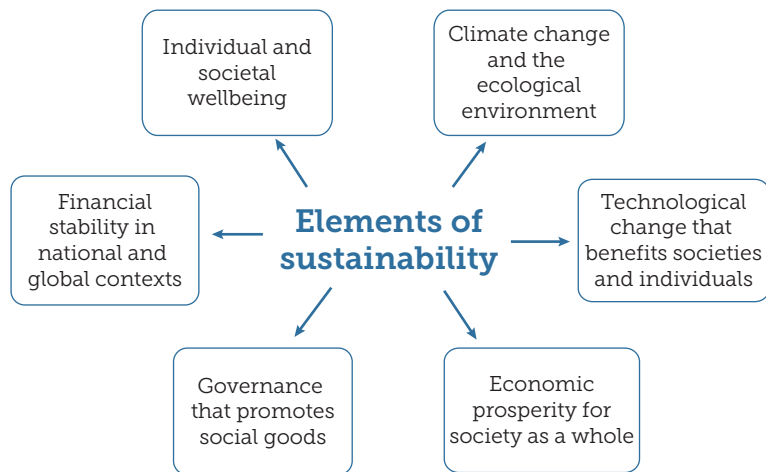


Figure Elements of sustainability

Sustainability rests on the principle that people of today's generation should lead their lives, organize their businesses, and set in place systems of governance that do not jeopardize the ability of future generations to fulfil their needs. Sustainability is



sometimes taken to be simply about the natural environment, but it is much broader than that, taking in all aspects of the business environment. The principle of sustainability encourages a business to think of stakeholders in the future, not just the present. Six aspects of sustainability can be highlighted, as shown in the figure. These are not just issues, but ways of going about business activities in contexts where legal and moral responsibilities arise, and where societies and values matter. The elements in the figure are as follows:

- **Individual and societal wellbeing**

Every human being should be able to access basic needs, such as adequate nutrition and housing, and everyone also aspires to a fulfilling life, enjoying good health, education and a decent job. Wellbeing is both individual and societal. Cultural and social dimensions are critical to everyone's sense of dignity and belonging. They are recognized as core ethical principles and human rights in international law. They are the subject of safeguards and institutions in most societies, and are essential to the legacy of institutions that will be passed on to future generations. It is up to both governments and businesses to ensure that these values are upheld through sustainable policies and strategies.

- **Climate change and the ecological environment**

Climate change is one of the biggest – and most urgent – of the challenges facing the planet. Measures to reduce emissions, reduce the use of plastic and clean up the air, are priorities for global leaders. In today's world, businesses play an active role in governance at the national and international levels, working with governments and non-governmental bodies, and influencing policies. Much of that interaction is positive, helping to adapt business aims to societal needs. However, many businesses view these interactions as self-serving, for example, in efforts to persuade governments and lawmakers to bend laws and policies towards their interests. Such an approach might satisfy shareholders in the short term, but an alignment of business aims with societal goals will support the legitimacy of both governments and business players in the long term.

- **Technological change that benefits societies and individuals**

Technological change has been the driver of economic development, bringing innovations that transform industries – and also societies. While these changes have been responsible for rising living standards, improved health, advanced communications and a host of other benefits, they have also had negative impacts, often in terms of loss of jobs. Ideally, changes should be sustainable, helping all to enjoy the benefits. But new technology tends to benefit, above all, the innovating companies that gain monopolistic control, and the workers who have the relevant skills and education to carve out new careers for themselves. When technological advances are captured by the few, they are unsustainable. It requires governments and socially responsible businesses to focus on how new technologies can be utilized to benefit all, with appropriate regulation and accountability.

- **Economic prosperity for society as a whole**

Businesses play vital roles in shaping how societies function and change. Much of the discussion in this book focuses on globalization and how it transforms not just production, but whole societies. The spread of global supply chains has been key to the economic development of today's emerging economies. China is the leading example, and is featured on the cover of this book. But how sustainable is this development? Negative impacts have included the rise of workplace environments that infringe human rights, environmental degradation associated



with industrialization, and unsustainable agriculture. While emerging economies have seen rises in living standards generally, they still face high levels of inequality and weak social protection systems. Moreover, as economic growth has slowed, governments' aims to reduce national debt and rein in public spending are under pressure. For businesses that have focused on short-term profit-seeking, sustainability requires rethinking business models in terms of stakeholder interests.

- **Governance that promotes social goods**

Governance concerns the interaction of both political and business actors. These relations, ideally, are co-operative, transparent and focused on public goods. Legitimate institutions and the rule of law should underpin governance structures, leading to public confidence that the government is working for everyone, not just the business and political elite. In many countries, this ideal of sustainable democratic institutions is under threat, even in countries that have been considered to have stable democratic systems, such as the US and UK. The rise of extreme nationalist populism is one of the factors, but so, too, is the rise of corporate power, such as the tech giants, Facebook, Apple, Microsoft and Amazon. Refocusing governance on societal goals is vital to achieving sustainable institutions that govern in the public interest.

- **Financial stability in national and global contexts**

The global financial crisis of 2008 was blamed on the excessively risky strategies of global banks, and also on regulatory failures. In the recession that followed, unemployment and economic hardship left a trail of despair for millions of workers. The capitalist assumptions of self-regulating markets were criticized as unsustainable and in need of reform. Reforms have followed, but not the structural root-and-branch reforms many had envisaged. Financial markets have experienced booming years, and corporate profits have soared, while wages and jobs have had a much less robust recovery. How sustainable is this situation? Rethinking how financial markets can become more stable and sustainable would entail more of a stakeholder focus and a reform of corporate governance. It would also entail a shift in corporate culture away from a short-term view of financial performance to one of long-term value.

In each chapter, an assessment of sustainability challenges is set out in a section just before the conclusions. The issues raised in these discussions are revisited in the book's final chapter, Chapter 12.

Plan of the book

The book retains the same organization as the last edition. This takes the reader in a logical progression of chapters from the foundation material to the more focused business contexts. It also reflects the organization of this subject that is adopted in many course syllabuses. There follows an outline of the chapters, with a brief description of each.

Part 1: Business in the global environment

Chapter 1 – The business enterprise in focus

Basic concepts and terms that describe business organizations and processes are introduced. They include business formation, ownership and corporate governance. Outline guides to the dimensions of the business environment and the spheres of the environment – local, national and international – are presented. Terms used in the critical discussion of business issues are introduced here, laying the groundwork



for the critical analysis that follows in the later chapters. Many readers will already be acquainted with some of the basic concepts defined here, but I would urge that it is helpful to take time to become re-acquainted with them. Companies differ. What exactly does owning a share involve? Possibly not what many people might assume.

Chapter 2 – Globalization and the business environment

Theories of globalization from the perspective of the firm are the foundation of this chapter, which examines critically processes and impacts of globalization. The chapter looks at developments in global supply chains and markets, asking what economic benefits have flowed, and to whom. Globalization has become contentious for a number of reasons that draw in wider considerations for business strategists. These include weak world trade growth and trade tensions, human rights questions over sourcing products in low-cost locations, and the rise of nationalist trade policies.

Part 2: Dimensions of the business environment

Chapter 3 – Culture and societies

Values and norms of behaviour lay the foundations for understanding other dimensions of the environment. Despite globalization, differences between national cultures remain powerful, highlighting the importance of cross-cultural understanding in business contexts. Theories of culture are examined critically, highlighting the need to look behind categories such as 'individualist' and 'collectivist', which have tended to cloud more complex cultural realities. We look critically at today's factory environments in terms of human rights. Expanded sections on migration, urbanization and ageing societies are included, reflecting the growing challenges facing businesses and governments.

Chapter 4 – The global economic environment

Basic concepts used to describe economic systems are introduced. Economic indicators shed light on national economic systems, but, looking behind the statistics, their limitations are evident. Human development criteria are defined, giving a more complex picture of societies, and also revealing the effects of inequality, which is discussed in greater depth in this edition. National economic systems are described and critically assessed. Have market economies in today's world been exemplars of a sustainable capitalism? Or have other models, such as social democratic systems, proved to be better at achieving inclusive growth? China's economic model has seen growth falter, questioning its claim to sustainable development.

Chapter 5 – The political environment: politics and business intertwined

Basic concepts of politics are introduced. Internal and external political risks are discussed. Democratic and authoritarian systems are described and compared, noting in particular the role of business in governance. There is a new section on ideologies, including nationalist populism. There is also an expanded discussion of the risks to democratic institutions posed by authoritarian and populist leaders. There is a section on the European Union, and a new section on Brexit, with explanation of the relevant background. Politics at the global level is witnessing shifts in the balance of power among countries, notably with the rise of China. The rise of nationalist leaders is also a source of instability in global politics, with impacts on business.

Chapter 6 – The legal environment

We start by explaining the basics of a legal system, looking at differing national legal systems. The areas of law that particularly concern international business are explained, as is the legal harmonization that has taken place, facilitating international



transactions. Competition law, which seeks to maintain competitive markets, is highlighted as an area in which governments and regulators can play a role in reining in monopolies and anti-competitive behaviour. We also look at how companies have broadened their approach to legal risk, bypassing laws as well as actively seeking to overturn legal obstacles through litigation, lobbying, and using procedures such as international arbitration. The growing influence of international law is now evident in the business environment, alerting companies to obligations that extend beyond national legal systems.

Part 3: Drivers of international business

Chapter 7 – International trade and globalization

Trade theories provide the foundational concepts for this chapter. International trade is closely linked to the supply chains. Globalization has reached many new markets, creating opportunities, but also encountering risks. While open markets should benefit all, relations between trading nations are highly unequal: richer countries benefit and poorer countries are at a disadvantage. The World Trade Organization (WTO) has long attempted to achieve multilateral trade agreements designed to benefit all, but national interests still take precedence. Trade tensions have risen in recent years, with a rise in protectionist policies of national governments, notably the US. The US has sought to curtail the activities of the WTO and other inter-governmental bodies, raising questions over the future of multilateralism in trade relations.

Chapter 8 – Global finance

Cross-border finance benefits companies and whole economies. However, globalization of financial markets has also led to increasing risks, as shown in the financial crisis of 2008. This chapter looks at the finance function for businesses and for economies, including recent developments that have sought to restore global financial stability. The roles of the IMF and World Bank are assessed, especially in respect of handling national financial crises. Excessive borrowing has affected companies, householders, and whole economies. Merger and acquisition activities, often involving huge 'mega mergers' are discussed in the context of the public interest and competitive markets. Rethinking finance in terms of sustainability requires a return to the fundamentals: should finance be devoted to serving productive activities and consumers, or does moneymaking as an end in itself have a role to play? The sustainability of financial markets is not assured.

Chapter 9 – Technology and innovation

Innovation lies at the heart of economic development and improvements in well-being. Creative destruction has been at the heart of much technological innovation, and its implications are discussed. Disruptive technology can have negative impacts, such as the rise of automation and the monopolist control exerted by the giant tech companies. Both are topics of case studies. Technology transfer offers prospects for developing countries to benefit technologically from foreign investment, global supply chains and trade. But advances in technology are not easily diffused, and the owners of much technology, such as patented inventions, take steps to retain control over their use. Technology offers the prospect of improvements in many areas of human wellbeing, including medicine, agriculture and clean energy. These are key to sustainable solutions, yet their development, regulation and accessibility remain in doubt.



Part 4: Global challenges and sustainability

Chapter 10 – Ecology and climate change

Climate change and environmental degradation are global issues that must be addressed by governments and businesses. Rising emissions, notably from the extensive use of fossil fuels, have given impetus to international efforts to avert the worst impacts of climate change, especially the risks to low-lying countries from rising sea levels. Goals set out in the landmark Paris accord of 2015, which was unique in reaching a consensus between developed and developing countries, now look in jeopardy. Businesses are vital in translating government targets into real progress in the necessary technology and infrastructure. Yet, in practice, many businesses are ambivalent towards climate change measures. In addition, some governments have prioritized economic goals over climate and agriculture concerns.

Chapter 11 – Ethics and social responsibility

This chapter begins with the philosophical foundation of ethical theories, taking into account cultural diversity and differing perspectives of morality. For a business, ethical dilemmas are posed constantly. Many managers might think pragmatically that, if they are able to get away with unethical or illegal behaviour, then they are in the clear. Ethical obligations are one of the dimensions of corporate social responsibility (CSR), which takes in the interests of all stakeholders. CSR also focuses on legal obligations, which are increasingly framed in terms of international standards. Human rights receives more coverage in this edition. There are sections on decent work, the living wage, the gig economy, forced labour, and workers' rights to organize. The human rights of vulnerable workers are often poorly protected in national law, and also weakly enforced, both in developing and developed countries.

Chapter 12 – Sustainable business: the prospects

This chapter begins by revisiting the six elements of sustainability, explaining how each has been illuminated by the various business and government players that have been highlighted throughout the book. The next section assesses the risks in the global environment from a number of perspectives: economic and financial; social and cultural; rising nationalism and geopolitical tensions; and risks in the natural environment. There follows a section on government and business responsibilities in the areas where sustainable progress is at risk. They include democratic institutions and stakeholder concerns. Finally, there is a discussion of the prospects for a sustainable future.

Chapter features

This book is designed to present the content in a logical and easily accessible manner. Although ideally a reader would begin with Chapter 1 and read each successive chapter in order, the book has been designed so that any chapter can be read independently. The reader is guided to earlier relevant material. In some cases, key words that are introduced in earlier chapters are highlighted again in later chapters, along with a brief explanation. For readers who have read all the previous chapters, please consider the repetitions just a helpful reminder.

Chapter features are outlined below, divided between those at the beginning of the chapter, those in the body of the text, and those at the end of each chapter.



At the beginning of each chapter...

- An **Outline** of the sections in the chapter.
- The **Learning Objectives** of the chapter clarify particular outcomes which the reader can expect.
- An **Opening case study** sets the scene for the chapter, raising issues which will arise in the text. This case study usually features a company's responses to the changing environment in national and international contexts. There are four questions for discussion. References within the case study are given at the end of the chapter. As an additional feature in this edition, recommendations for further reading are given at the end of the case study.

In the body of the chapter...

- **Key words** appear in bold, and are defined in the text as they appear. They also appear in the margin of the page, roughly next to where they appear in the text. Key words include concepts, principles and major international institutions. They also feature in a Glossary at the end of the book.
- **References** are given in parentheses in the text, for example, (Tellis, 2009). There is a references section at the end of each chapter. It includes references from all the case studies in the chapter.
- **Web references** appear after the name of the relevant organization in the text. Most refer to companies or organizations that relate to the point being discussed. Beware – while every effort has been made to provide up-to-date online references, websites are subject to change and content moves about. However, organizations often provide a link to the new web address.
- **Mini case studies** – This is a new feature. There are two in each chapter. They offer a variety of subjects, some on a country, some on a company and some on an event of relevance. Questions for discussion and suggestions for where to 'find out more' are given at the end.
- **The way I see it...** – This is a feature from the last edition. There is one of these in each chapter. Each except the one in the last chapter is an updated version of one that appeared in the last edition. The quote is revisited in light of what has happened since then, and there is a question for analysis and discussion, coupled with a recommendation for further reading. The quotes are chosen for their timeliness and the insight they offer.
- **Shining a light on business decisions** – These boxes appear throughout the chapter. They raise questions and issues which invite the reader to examine the topic critically in a business context.
- **Video link: Enhance your understanding** – This is a new feature that appears in all chapters. The video link is designed to provide additional insight and understanding of a relevant topic. It appears in an appropriate position in the text. Many of the videos are lectures or interviews by distinguished academics who are recognized specialists in the specific area being discussed. Some are documentaries on particular relevant topics. All are interesting, informative and provocative.

At the end of the chapter...

- **Closing case study** – This case study features a company or national environment, raising relevant issues in national and international contexts. All raise issues of sustainability, governance and social responsibility, reflecting the book's conceptual framework. Questions for discussion and a recommendation for further reading appear at the end.



- **Multiple choice questions** – This is a quick self-test quiz on what you have read in the chapter.
- **Review questions** are designed to cover all the topics in the chapter. There are 15 questions. They are an aid to learning for self-study, or they can be the basis of group discussion. They are also a helpful revision aid.
- Two **assignments** are given after the review questions. These are broader in scope than the review questions. They require some independent research and offer an opportunity to present a considered analysis in a structured way.
- **Further reading** gives an indication of other sources to read that provide both further information and differing critical perspectives on the topics in the chapter.
- **References** – All the references in the chapter are listed at the end of the chapter.

At the end of the book...

- **Glossary** of key words. This contains all the key words highlighted in bold in the text (and also in the margins).
- **Index** – There is a comprehensive index at the end of the book.
- **Atlas** – There is a section of **maps** at the end of the book. Identifying and understanding the geographical location of countries and regions might seem incidental, but is immensely useful in understanding the substantive issues discussed in the text.

This book is intended to provide the reader with as up-to-date a picture of the business environment as can be expected in a book that covers a huge range of topics. Information becomes out-of-date overnight, simply because of the many changes taking place on a daily basis. The figures contain data as up-to-date as was possible from publicly available sources. Inevitably, there is a time lag in data becoming available to the public. For each figure in this book, the relevant international source is given, and the reader can find more up-to-date data when they are available. It is hoped that the trends that are apparent from the figures should provide an indication that will be helpful to readers, even if not all the data are up-to-date.

Many of the chapters, notably Chapters 4, 5, 11 and 12, are rather long and dense in content. These chapters contain new sections, for example those on Brexit, the rise of populism, human rights in the workplace and the rise of corporate power in the technology and media sectors. The reader can be selective, concentrating on those sections of particular interest. Rather than reducing the length of these chapters, it seemed preferable to allow the reader to decide which sections to focus on, in the knowledge that the others can be read at a later time.

This new edition is intended to build on the strengths and distinctiveness of earlier editions, while raising the important issues facing businesses in the global environment. It is hoped that, in addition to its academic value, it will be interesting and stimulating to read.



TOUR OF THE BOOK



BUSINESS IN THE GLOBAL ENVIRONMENT

The two chapters in this part form a foundation for the book as a whole. In any study of business, there is a distinction between matters relating to the enterprise itself, often termed the 'internal' environment of the business, and matters relating to the external environment, such as markets where it aims to sell its products. Although this division is oversimplified, as we will find in later chapters, it helps to use these

Introduction to each of the four parts of the book

The introduction appears at the beginning of each part. It provides a summary of what will be discussed in each chapter in that part.

Outline of chapter and learning objectives

The opening page of each chapter provides a quick guide to what is covered in the outline of the chapter. The learning objectives will help you organize your study and track your progress.

Outline of chapter

Introduction

What does the business enterprise exist to do?

Purpose and goals

The company in society: Stakeholders and corporate social responsibility (CSR)

How does the enterprise carry out its goals?

It all starts with entrepreneurs

Companies: the engines of business activities

Functional areas within the enterprise

The multinational enterprise (MNE)

Corporate governance: shareholders and other stakeholders

This chapter will enable you to

- Identify a variety of purposes pursued by business enterprises in the changing environment
- Evaluate the differing types of ownership and decision-making structures through which enterprises pursue their goals
- Appreciate the roles played by stakeholders in diverse enterprises
- Gain an overview of dimensions and layers of the international business environment, together with an ability to see how their interactions impact on firms
- Gain an overview of ways in which principles and practices of sustainability are integrated



OPENING CASE STUDY

The iconic brand of Levi Strauss

Nowadays, when we think of an iconic brand, we tend to think of a brand such as Apple's iPhone, but there is an iconic brand that has been around much longer, and is popular with many more people from different walks of life worldwide. The original blue jeans made famous by Levi Strauss are universally popular, whether the wearer is richer or poorer, younger or older, keen on

'Chip' Bergh, who took over as Chief Executive Officer (CEO) in 2011. He had come from the consumer products company, Procter & Gamble, and set about renewing the Levi Strauss brand, refashioning its appeal to today's consumers. He felt that when consumer brands persist in producing the same products for the same markets, without an eye to innovation, they soon

Opening and closing case studies

Case studies at the beginning and end of each chapter feature businesses of all sizes, from every corner of the globe. Questions at the end of each case study give you a chance to reflect further. There are also recommendations for further reading.

CLOSING CASE STUDY

Ikea at the crossroads

India might seem an unlikely market for Ikea, the Swedish furniture retailer, to open new stores, but these are changing times in global consumer markets, and the rising middle classes in

Ikea's executives have responded to the challenges of changing shopping habits by opening smaller stores in city centres. For example, it operates pop-up shops for kitchens in a number of

Mini case studies

Two shorter case studies in each chapter focus on a business, a country or a particular issue. There are questions that invite you to think more about the issues, and a recommendation for reading to find out more.

MINI CASE STUDY

Taking a company private

Elon Musk, the flamboyant CEO (chief executive officer) of Tesla, the electric car company, announced in 2018 that he had 'funding secured' to take his company back into private ownership (Campbell and Pooley, 2018). Tesla had been listed on the Nasdaq exchange in 2010, and was worth over \$70 billion. Taking it private would involve a mammoth undertaking to buy out the investors,

ments. Wh because of they have sometimes Most e ings of frus sures on t publicly li

Glossary

Key terms are highlighted in bold colour and defined in the text where they appear, and collated in an alphabetical glossary at the back of the book for reference.

functional areas

activities of a business which form part of the overall process of producing and delivering a product for a customer



Shining a light on business decisions

These boxes pose specific situations and issues that confront businesses, and invite you to consider the ways in which relevant business decisions are taken in a wide range of circumstances.



How can the board of directors better perform its res monitoring management decisions?

Boards of directors have been the targets of criticism in recent acquiescent when managers were pursuing risky strategies. In directors who are themselves CEOs are not likely to 'rock the independent director contribute to more effective monitoring

The way I see it ...

On the competitive environment, 'The lesson to me is differentiate yourself...Move up the value chain. Being cheaper isn't enough. Being the low-cost provider is temporal.'

Sam Palmisano, former CEO of IBM, in an interview with CRN technology news, 23 February, 2011, at www.crn.com

Sam Palmisano guided IBM through a period (2003–2011) when it was making the transition from hardware to services, and also towards social goals, for example, in local supply chains that take into account community needs. He is now the head of the Center for Global Enterprise (www.thecge.net), which focuses on sustainability in the global environment. See 'IBM's Sam Palmisano: Always put the enterprise ahead of the individual', article and podcast, 18 January 2012, Knowledge@Wharton, at <http://knowledge.wharton.upenn.edu>

What advice would Palmisano offer to today's high-tech giants on the sustainable business?

The way I see it...

Quotes from a range of people and organizations raise different perspectives or pose dilemmas for you to consider, either on your own or in discussion with others. Rival viewpoints are sure to emerge.

Video links: enhance your understanding

The video links feature leading authorities on relevant dimensions of the business environment. They are an ideal way to enhance your learning.



Startups

Startups fail for many reasons. See what these experts on entrepreneurship say about success – and failure. 'Why do so many startups fail?', The Big Question from Chicago Booth, 30 November 2015.

Video link: Startups
https://youtu.be/L_9OGInAT58

Review questions

- 1 How does a business decide what its goals will be?
- 2 Define stakeholders and explain the stakeholder concept.
- 3 What is CSR, and why is it becoming more important?
- 4 What are the advantages and disadvantages of CSR?
- 5 What are the aspects of the limited company with business ownership?

Assignments

- 1 Offer advice to the following CEO: Ralph E. U. country. The business has been highly built up the business from its early days a business model. Ralph has recently had a that values his company at €1 billion. He is business. What should he do? Set out your offer.
- 2 The PESTLE analysis was designed to illustrate environment. How can it be adapted to broader scope, bringing in regional and global

Further reading

Bartlett, C., and Ghoshal, S. (2002) *Managing Across Borders: The transnational solution*, 2nd edition (Boston: Harvard Business School Press).
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Murman, J. (ed)
entrepreneur
Manage

Review and revise

The end of each chapter has a number of features to help you review and master what you have studied. There are review questions, assignments and suggestions for further reading.

For references and mastering the key terms and concepts

A Glossary of all key terms is at the end of the book. References are at the end of each chapter.

Visit the companion website at www.macmillanihe.com/morrison-gbe-5e for further learning and teaching resources.



DIGITAL RESOURCES

Companion website

There is a **companion website** for this book (www.macmillanihe.com/morrison-gbe-5e) where there is a range of teaching and learning materials.

Teaching resources

Instructors who adopt this book on their course gain access to a selection of password protected resources to help plan and deliver their teaching:

- Chapter-by-chapter sets of Microsoft PowerPoint slides
- Suggested answers to case study questions, along with guidelines for group discussions
- Guideline answers to questions in the 'Shining a light on business decisions' boxes, and questions on the quotes that occur in boxes on 'The way I see it...'
- Outline answers to the review questions at the end of each chapter, and outline answers for the assignments
- A testbank of multiple choice questions for structured tests
- Updated case studies from previous editions of the book

Learning resources

- Updated case studies from previous editions of this book
- Flashcards of useful key terms in the book

The Global Business Environment

Towards Sustainability?


by Janet Morrison

- > HOME
- > TEACHING RESOURCES
- > LEARNING RESOURCES
- > ABOUT THIS BOOK

This bestselling textbook offers a comprehensive introduction to the global business environment, blending cross-disciplinary topics from sociology, politics and economics with a compelling exploration of how contemporary events relate to worldwide business practice. Truly international in scope, the book allows students to explore multiple perspectives and scenarios to prepare them for the highly globalised business operations of today.

This new edition is thoroughly up-to-date, covering the profound global changes that are impacting upon how we do business, such as the rethinking of populism, the worsening of climate change effects and the rise of nationalist populism. With a new enhanced focus on the sustainability issues that challenge businesses today, applicability to real-world business practice remains the book's core principle. Janet Morrison's characteristically clear and authoritative writing style, combined with an unrivalled range of learning features, ensures that this book offers all of the essential tools to support skills development, critical thinking and academic insight.

Ideal for undergraduate and MBA modules on the Business Environment or Business Contexts, this book is also suitable for International Business modules that offer an introduction to the issues of global economics in the context of other political, social and cultural environments.



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LIST OF ABBREVIATIONS

AGM	Annual General Meeting
AI	artificial intelligence
BRIC	Brazil, Russia, India and China
CEE	Central and Eastern Europe
CEO	Chief Executive Officer
CMA	Competition and Markets Authority (UK)
CSR	corporate social responsibility
ECJ	European Court of Justice
EU	European Union
FDI	foreign direct investment
FTA	free trade agreement
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GHGs	greenhouse gases
GMOs	genetically-modified organisms
GNI	gross national income
HDI	Human Development Index
ICC	International Criminal Court
ICJ	International Court of Justice
ICCPR	International Covenant on Civil and Political Rights
ICESCR	International Covenant on Economic, Social and Cultural Rights
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change (UN)
ISDS	investor-state dispute settlement
IT	information technology
ILO	International Labour Organization
IP	intellectual property
IPO	initial public offering
M&A	merger and acquisition (activity)
MNE	multinational enterprise
NAFTA	North American Free Trade Agreement
NGO	non-governmental organization
OECD	Organisation for Economic Co-operation and Development
PLC	public limited company (UK)
PPP	purchasing power parity
RTA	regional trade agreement
R&D	research and development
SDGs	Sustainable Development Goals
SEC	Securities and Exchange Commission (US)
SME	small-to-medium-size enterprise
TPP	Trans-Pacific Partnership
TRIPS	Trade-related Aspects of Intellectual Property (agreement)
UK	United Kingdom
UN	United Nations
UNESCO	UN Educational, Scientific and Cultural Organization
US	United States of America
USMCA	United States-Mexico-Canada free trade agreement (successor to NAFTA)
WHO	World Health Organization
WTO	World Trade Organization



BUSINESS IN THE GLOBAL ENVIRONMENT

The two chapters in this part form a foundation for the book as a whole. In any study of business, there is a distinction between matters relating to the enterprise itself, often termed the 'internal' environment of the business, and matters relating to the external environment, such as markets where it aims to sell its products. Although this division is oversimplified, as we will find in later chapters, it helps to use these contexts for the initial formulation of concepts and identification of issues, which will become nuanced in later chapters.

Chapter 1, *The business enterprise in focus*, examines the business itself, its goals and how it goes about achieving them. The chapter begins by looking at the most basic question of all: what does the business exist for? Many issues come into play, including what the enterprise exists to do, what it is offering the public and how it should be run. Basic concepts are introduced, including those relating to company formation and those relating to the analysis of business strategies. Issues of sustainability and corporate social responsibility are introduced. Businesses are part of the societies in which they operate. They are expected to address impacts on stakeholders and on society generally. The last two sections in Chapter 1 introduce the business in its external environment, setting out the dimensions which will form the basis of separate chapters.

In Chapter 2, *Globalization and the business environment*, we change focus to the external environment, with rapidly changing markets and production based on global supply chains. The many processes which are grouped together under the broad heading of 'globalization' are examined critically, assessing impacts on business organizations, governments and societies. Globalization represents a range of different processes, from high-speed communications to converging consumer tastes. These processes have led to economic benefits flowing to companies and to national economies. However, negative impacts on societies and the environment are a continuing concern, casting doubts on sustainability. In recent years, national trade policies of leading trading countries have shifted focus to domestic economic goals, causing trade tensions that have impacted on global supply chains.



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CHAPTER 1

THE BUSINESS ENTERPRISE IN FOCUS

Outline of chapter

Introduction

What does the business enterprise exist to do?

Purpose and goals

The company in society: Stakeholders and corporate social responsibility (CSR)

How does the enterprise carry out its goals?

It all starts with entrepreneurs

Companies: the engines of business activities

Functional areas within the enterprise

The multinational enterprise (MNE)

Corporate governance: shareholders and other stakeholders

An overview of the global environment

Multiple dimensions and the PESTLE analysis

The multi-layered environment

The enterprise in a dynamic environment:

Building sustainability

Conclusions

This chapter will enable you to

- Identify a variety of purposes pursued by business enterprises in the changing environment
- Evaluate the differing types of ownership and decision-making structures through which enterprises pursue their goals
- Appreciate the roles played by stakeholders in diverse enterprises
- Gain an overview of dimensions and layers of the international business environment, together with an ability to see how their interactions impact on firms
- Gain an overview of ways in which principles and practices of sustainability are integrated into the business environment



OPENING CASE STUDY

The iconic brand of Levi Strauss

Nowadays, when we think of an iconic brand, we tend to think of a brand such as Apple's iPhone, but there is an iconic brand that has been around much longer, and is popular with many more people from different walks of life worldwide. The original blue jeans made famous by Levi Strauss are universally popular, whether the wearer is richer or poorer, younger or older, keen on fashion or not. And although Levi Strauss conjures up an image of the American west, their jeans are popular all over the world, in both rural and urban settings.

The company was founded in 1853 by a wholesale dry goods merchant who emigrated to the US from Germany. Levi Strauss made his way to California in the era of the great Gold Rush. Working with a partner who was a tailor, they had the idea of riveted jeans for workwear that, according to company legend, would be sold to gold miners. Levi Strauss jeans were patented in 1873, and the business grew steadily. Denim jeans became popular well beyond people engaged in tough, outdoor work. The market for denim jeans was becoming very competitive, and other companies, such as Wrangler, were also attracting loyal customers. The US was their main market, and sales at Levi Strauss reached a peak of \$7.1bn in 1997. In the years that followed, denim jeans were facing competition from a range of other brands and products. Gap was offering a wide range of casual wear, and the advent of new fabrics such as lycra offered a more comfortable fit for users, especially those looking for a combination of fashion and comfortable apparel for leisure activities of all sorts. Were denim jeans losing their appeal? Levi jeans has remained a private, family-owned company for most of its existence. It was listed as a public company in 1971, but was de-listed in 1985, reverting to private ownership. In that period, the manufacturing of its clothing shifted from mainly US factories to overseas factories. By the 2000s, its US factories had almost all disappeared. This was a trend that affected the entire clothing industry in the US, as jobs in clothing and textiles shifted to lower cost locations, mainly in Asia.

Competitive pressures signalled that the company needed to rethink its product offering and its brand in order to survive in a changing environment. Coming to the rescue was Charles

'Chip' Bergh, who took over as Chief Executive Officer (CEO) in 2011. He had come from the consumer products company, Procter & Gamble, and set about renewing the Levi Strauss brand, refashioning its appeal to today's consumers. He felt that when consumer brands persist in producing the same products for the same markets, without an eye to innovation, they soon become jaded. The company, he felt, should look to new designs and new, improved fabrics. Stretch fabrics were introduced, and more design appeal was sought. While Levi Strauss's products had always been more popular with men, he set about developing ranges that would be popular with women. He also had an eye on expansion in other markets. It was not long before sales were growing in Europe and Asia, although the US still accounts for 59% of its sales. The venerable old brand faced stiff competition from fast fashion companies such as H&M, which had lower prices and sleek designs. There was also strong competition from the value stores that appealed to highly price-sensitive shoppers. Moreover, retailing was fast becoming transformed by the growth in online sales. Levi Strauss thus had to move with the times. Has it succeeded?

Sales rose to nearly \$5 billion in 2017. As a sign of its new-found confidence, Levi Strauss opened its own flagship store in Times Square in New York in 2018. Here it offers bespoke tailoring services for customers and a nostalgic step back in time in its on-site Levi Strauss museum. For most older customers, denim jeans bring back pleasant memories of their own lives. Levi Strauss has worked to depict itself as an authentic brand in a world in which people have become used to



Wall Street traders mark the debut of Levi Strauss on the New York Stock Exchange.

© Getty Images, Spencer Platt



throwaway fashion. The idea of spending on something that is authentic and lasting seems especially to have struck the right note with millennial-generation customers. In 2018, the ownership of the company was still mainly in the hands of the descendants of Levi Strauss. But its renewed success has encouraged the family to take the company public again. The company was

listed on the New York Stock Exchange in March 2019, and enjoyed a rise in value of 30% on the first day's trading. The new stock was oversubscribed, in a sign that many investors wanted to own a slice of this iconic company and its history. The Wall Street traders on the floor of the exchange set the tone by wearing Levi jeans for the occasion.

Questions

- What are the competitive pressures facing Levi Strauss?
- What makes Levi Strauss an iconic brand?
- In your opinion, why have the descendants kept the company under their own control all these years?
- What are the challenges now facing Levi Strauss?

Further reading

See the article by Dominic Rushe, 'Levi's shakes off the troubles by embracing the past', 17 November 2018, in *The Guardian*, at www.theguardian.com

Also see 'Levi Strauss shares surge on first day of trading', BBC news, 21 March 2019, at www.bbc.co.uk

Introduction

Business activities shape the daily lives and aspirations of people all over the world, from the farmer in rural Africa to the executive of a large American bank. Business enterprises present a kaleidoscope of different organizations and goals, catering for customers ranging from the shopper purchasing a loaf of bread to the giant oil company agreeing to carry out exploration for a government. Business enterprises and their environments have become more complex and interconnected in recent years, with expanding and deepening ties in diverse locations. Expansion has brought increased risks and greater challenges for managers. They must adapt to differing environments and rapidly changing circumstances. They also serve a more informed public than that of only a few decades ago. The international public is more aware than ever of corporate activities, largely due to the pervasiveness of the internet and social media. Challenges for managers are heightened by a growing perception that companies bear responsibilities for their actions in societies. All business organizations, whatever their size and geographical scope, are faced with key questions to which they must respond.

We begin this chapter by identifying these key questions behind the business enterprise, which are, 'What do we exist to do?' and 'How should we be carrying out our goals?'. We then look at how enterprises come into existence, how decision-making takes place and, importantly, the responsibilities of decision-makers for their actions. A number of basic terms relating to companies and their governance are introduced. Business discourse often refers to 'shareholder value', but what exactly is a 'share' in a company, and why does it matter? These basic concepts are crucial in describing the organizational aspects of the company, which reflect its values and influence its behaviour. As will be seen, the company's ownership, organization and behaviour are shaped by aspects of the business environment.

As the global economy has expanded, there is a wider range of companies and countries engaged in global business. Moreover, states and state-related organizations are playing increasingly active roles. We highlight two cross-cutting views of



the international environment. The first is the differing dimensions of the environment, including economic, cultural, political, legal, financial, ecological and technological. The second is that of spheres, from the local through to the national, regional and global. We thus provide a practical framework for understanding how enterprises interact through each dimension in multiple geographical environments. The last section of the chapter focuses on the challenges and responsibilities that have been highlighted, in particular, building sustainable business and the regulatory environment.

What does the business enterprise exist to do?

business any type of economic activity in which goods or services (or a combination of the two) are supplied in exchange for some payment, usually money

international business business activities that straddle two or more countries

for-profit organizations businesses that aim to make money

not-for-profit organizations organizations such as charities, which exist for specific good causes in societies

social enterprise an enterprise that lies between the for-profit and not-for-profit organization, aiming to make money but using it for a social cause

The street trader in India and the Silicon Valley executive might not seem to have much in common: they are worlds apart in geography, culture and technology. But they have more in common than meets the eye. Both seek to offer products that will please customers, and both must respond to changing tastes and lifestyles in order to make money to keep the enterprise afloat. This is the essence of business everywhere. **Business** refers to any type of economic activity in which goods or services (or a combination of the two) are supplied in exchange for some payment, usually money. This definition describes the basic exchange transaction. The types of activity covered include trading goods, manufacturing products, extracting natural resources and farming. **International business** refers to business activities that straddle two or more countries. Businesses nowadays routinely look beyond the bounds of their home country for new opportunities. Moreover, although it used to be mainly firms in the more advanced regions of the world (such as North America, Europe and Japan) which aspired to expand into other countries, we now see businesses from a much wider range of countries 'going global'. These include Chinese, Indian, African and Latin American firms. Consequently, in most countries, there are likely to be both domestic and foreign companies competing alongside each other. Today's international businesses come from a variety of backgrounds and represent a diverse range of organizations – from family firms to state-owned companies. There is thus a wide spectrum of purposes and goals lying behind international businesses.

Purpose and goals

A business enterprise does not simply come into existence of its own accord. It is created by people with ideas about products or services, who may emerge in any society or geographic location, and who bring their own values and experience to bear on it. Particular national environments, with their distinctive values and social frameworks, are formative influences on founders of businesses. Entrepreneurs might simply seek personal gain for themselves and their families, but many will envisage an overarching purpose or mission of contributing to society through employment and wealth creation. They will have some idea of what type of entity they wish to create in terms of organization. They must also focus on the specific goods or services they wish to offer, and to whom. These objectives might change frequently, while broader goals are more enduring. Both the decision-makers and the circumstances will change, but the underlying question confronting them is 'what purpose are we fulfilling or should we be fulfilling?'. Most of the world's businesses aim to make money, and are sometimes referred to as **for-profit organizations**, to distinguish them from **not-for-profit organizations**, such as charities, which are established to serve specific good causes in societies. A third category is the **social enterprise**, which lies somewhere between the two: it aims to make money for a social cause rather than as profit for the owners. These are broad categories, and these types of enterprise vary considerably from country to country.



business model a broad term covering an organization's reasons for existing, its goals and the means it adopts to achieve them

innovation activities that lead to new and improved products and services

supply chain series of stages involved in producing a product or service, from sourcing through to production, distribution and delivery to the customer, where each stage is co-ordinated to link with other stages in the process

Although for-profit enterprises aim to make a financial gain, most founders would say that their goal is not simply to make money, but to offer products which will satisfy customers. It need not be a wholly new product, but one that is more innovative technologically or a better design than rivals' products. It could be a 'greener' product than those of rivals, such as a more fuel-efficient car, reflecting goals of a sustainable business. Alternatively, a firm might simply focus on delivering a standard product or service more cheaply than its competitors. These are all aspects of the firm's **business model**, which is a broad term covering the organization's goals and means of achieving them. The business model is about *why* the company exists, as well as about *how* it aims to serve customers. A business model is not set once and for all by founders, but can be changed over time to reflect innovation and changing markets (see Ovans, 2015). **Innovation** brings to mind the creation of new products that displace the older ones, but it also encompasses improvements and new ways of doing things (discussed fully in Chapter 9). Innovation lies at the heart of many business models, especially those in high-tech sectors, where it is key to maintaining competitiveness.

Apple of the US has acquired an enviable reputation for its iconic iPhone, sold at premium prices, but the company has come under fire over the working conditions in the factories in which the phones are made, mainly in China. The basis of Apple's business model has been its innovative products, but also crucial has been its strategy of having products manufactured in low-cost locations within a supply chain that is designed to serve markets globally. The **supply chain** visualizes the production process as a succession of stages, from sourcing and manufacture through to delivery. Supply chains have become global, as firms seek the most advantageous location for each stage. The supply chain is also referred to as a 'value chain', whereby value is added at each stage, as discussed in the next chapter. While this is applauded as a global strategy from the business perspective, it can be criticized on ethical grounds in a number of contexts. Consumer products, from basic essentials to expensive goods, are routinely made by exploited workers in poor countries – an uncomfortable reality for companies and their brands. The huge profits Apple accumulates from iPhone sales are deposited in foreign locations, in order to avoid the tax bills that would arise in the US. These arrangements, too, can be criticized as unethical. Apple is not alone. Many companies arrange their businesses to reduce tax burdens. They would argue that the pursuit of economic goals is, after all, what they are founded to do. This approach, however, sits uneasily with mission statements which typically depict the company as enhancing the quality of life. Consumers and investors have increasingly criticized an aggressive profit-seeking approach, pointing out that companies are part of the societies in which they operate: their economic power entails social responsibilities. Governments, too, have introduced legal reforms that seek to compel companies to pay tax in the countries where they operate, rather than utilize tax-avoidance structures. The for-profit company is just that, but there is a growing awareness that a pursuit of both economic and social goals is, in the long term, a more sustainable way in which to frame business goals (Carroll and Shabana, 2010). This point recurs throughout this book.

The company in society: Stakeholders and corporate social responsibility (CSR)

As the last section highlighted, answering the question, 'what do we exist to do?' is more complex than might appear. A business seeks to enrich its owners, but it will not succeed unless it satisfies customers who purchase its products and services. Its activities involve employing people, acquiring productive assets, using resources and interacting with official authorities and other organizations in communities.



stakeholder broad category including individuals, groups and even society generally, that exerts influence on the company or who the company is in a position to influence

These relationships all involve the business in society. These interests are referred to broadly as stakeholders. A **stakeholder** may be anyone, including individuals, groups and even society generally, that exerts influence on the company or who the company is in a position to influence (Freeman, 1984). The impacts may be direct or indirect, identifiable people or a more general notion of the community as something distinct from its current members. As Figure 1.1 shows, stakeholders who have direct relations with the company include owners, employees, customers and suppliers. These might be located in any country where the firm does business. A government authority can be a direct stakeholder if it has an ownership stake, but it is more likely to be an indirect stakeholder, framing the legal environment in which the firm operates. Indirect stakeholders, while they affect and are affected by the company's operations, cover a range of broader societal interests, which enjoy fewer direct channels of communication with managers. They include the local community, society generally and the ecological environment affected by the company's operations. Employees in a company's supply chains are also stakeholders, but commonly do not directly interact with the lead company.

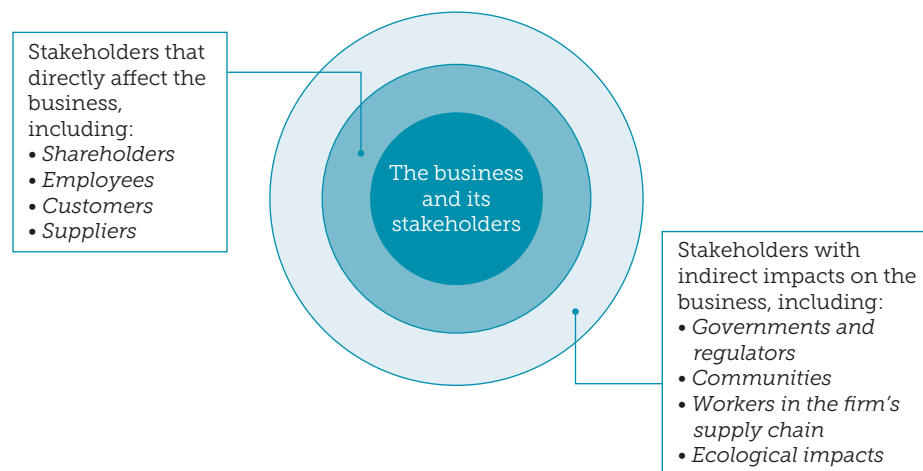


Figure 1.1 The business and its stakeholders

outsourcing term covering any activity which an organization considers can be more advantageously carried out by another firm, often in another country

offshoring term covering an outsourced activity that can be carried out in a jurisdiction where weak regulation and tax advantages offer attractions

In a company which operates mainly in its own domestic market, managers have a fairly clear idea of their main stakeholders. Their employees and customers are readily identifiable. In a company which operates internationally, identifying stakeholders is far more difficult – and more challenging. The company's branded products could be made by workers in other locations, who are employed by a different company and have little contact with the company whose brand appears on the products. This strategy is typical of companies that operate through global supply chains. A term often used in the context of seeking cost-saving solutions is **outsourcing**, which covers any activity which an organization considers can be more advantageously carried out by another firm, often in another country. The activity is usually one formerly carried out 'in-house', which the firm decides to contract out to another firm, with the aim of reducing costs. Outsourced manufacturing is one of the more prominent of these. It is exemplified by Nike, Gap and other familiar brands such as Levi Strauss, featured in the opening case study. Numerous business functions can be outsourced. Among them are IT and call centres. This is often referred to as 'business process outsourcing' (BPO). Closely associated with this approach is '**offshoring**', a term used specifically to refer to outsourced activities that take place in advantageous jurisdictions such as those with lax regulation and low taxation. Financial arrangements are often the subject of offshoring strategies. The policy of seeking the most advantageous location for each aspect of the business is one of the



major trends associated with globalization, which we discuss in the next chapter. But it also exemplifies an aggressively profit-maximizing approach to the business which arguably jeopardizes stakeholder interests.

For the company with activities and supply links in different countries, identifying and responding to stakeholder interests can be complex and involve taking decisions which have profound impacts in societies. A decision to close a factory can be made for purely internal economic reasons, but its impacts on employment and communities can be far-reaching. Stakeholders are important interests that impact on the firm's business performance, but stakeholder management also has a normative dimension, as an aspect of business ethics (Carroll and Shabana, 2010). For example, managers introduce measures to foster the health and wellbeing of employees not simply because people will work harder if they have healthier lives, but because it is the right thing to do. This ethical principle is rooted in the concept of **human rights**, which are basic, universal rights of all individuals, wherever they are. Upholding human rights is central to the firm's broader role in society. The approach to business activities which accords with these values is **corporate social responsibility (CSR)**. CSR as an approach recognizes that, in addition to economic responsibilities, the firm has legal, moral and social roles. These refer to both individuals and whole societies. CSR has become rather an umbrella term, covering a spectrum of approaches to business objectives, which are highlighted throughout this book and are brought together in a critical assessment in Chapter 11.

CSR takes a long-term view of the company's goals. Pure profit-seeking is a short-term approach that, in reality, can jeopardize the ability of the company to continue to generate profits. In what is often called the 'business case' for CSR, the firm places economic goals in a longer timeframe, maintaining its capacity to generate profits in the future. This longer term approach involves the **sustainability** of the firm's business, which rests on the idea that today's business should be carried out in ways which do not cause a detriment to the ability of future generations to fulfil their needs. An overarching theme of this book, sustainability takes into account the firm's impacts on communities and the natural environment. The principle of sustainability encourages a business to think of stakeholders in the future, not just the present. Most firms would probably say they uphold goals of stakeholder involvement, CSR and sustainability, but firms differ markedly in their commitment of resources to these goals. Many see these as costs which jeopardize the company's profit-making activities. Possible conflicts between social goals and economic goals underlie much of the discussion of challenges and responsibilities which occurs throughout the book.

human rights basic, universal rights of all individuals, wherever they are, which transcend social and cultural differences

corporate social responsibility (CSR)

an approach to business which recognizes that the organization has responsibilities in society beyond the economic role, extending to legal, ethical, environmental and social roles

sustainability the principle that business should be carried out in ways which do not cause a detriment to the ability of future generations to fulfil their needs



What does the business exist to do?

Think of a company whose products you regularly purchase. How would you describe its business model? Think about why you are buying its products and whether you feel loyalty to the brand. For example, it might be because the product is good quality, cheap or convenient. But it could also be because the brand stands for values that you support.

How does the enterprise carry out its goals?

Although we speak of a *firm* forming goals and carrying them out, it is actually the *people* running the firm who take key decisions. In this section, we look at the players and processes which make it function. We focus here initially on the forms, structures and processes which constitute a legal framework; this is a necessary consideration before the firm can get on with what it is 'really' about, such as manufacturing. Most businesses start in a small way, with founders who become the first owners. They bear considerable responsibility, especially in the early stages of the business. Having a great idea for a business is only the beginning. They must create a legal and organizational structure to carry it out, and decide on how it will be



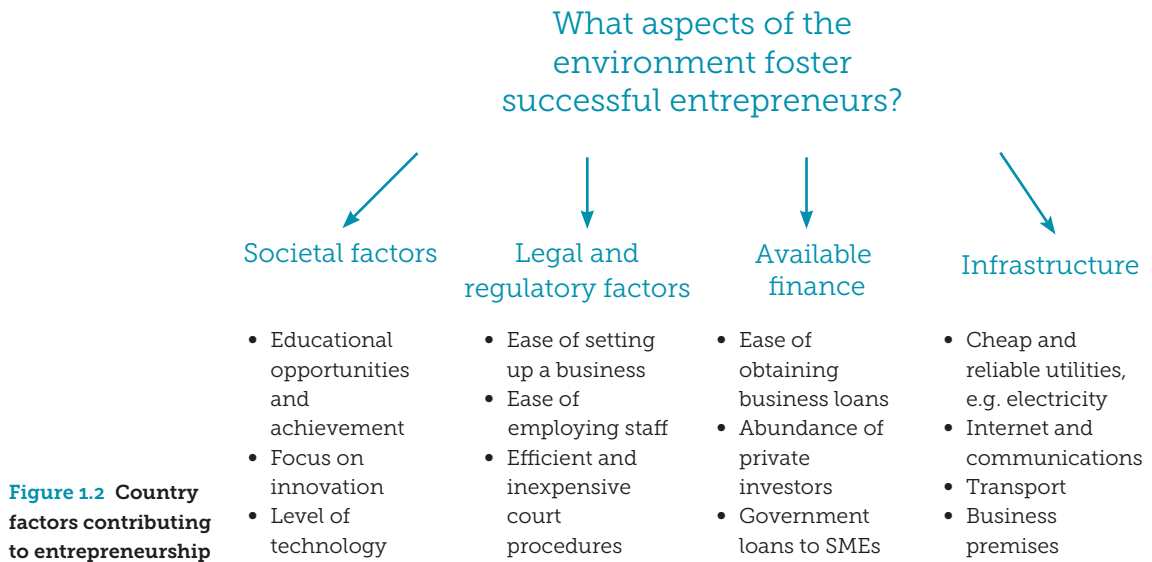
financed and managed. Each of these aspects of the business has an international dimension for many enterprises, adding to the possible complications, but also offering tantalizing opportunities.

It all starts with entrepreneurs

entrepreneur

person who starts up a business and imbues it with the energy and drive necessary to compete in markets

A person who starts up a business, usually with his or her own money, is known as an **entrepreneur**. This is a broad category. Entrepreneurs exist in every society, but they differ markedly in their goals and outlooks. In developing countries, most entrepreneurs are highly localized in their activities and market. In villages throughout developing countries, the 'subsistence entrepreneur' serves the local community, managing to make a living but harbouring no intentions to expand (Schoar, 2010). The majority of entrepreneurs in developing countries are subsistence entrepreneurs. It is often observed that what is needed to propel economic development in poor countries is the more ambitious and innovative entrepreneur, who aspires to grow from a start-up to a bigger business (Schoar, 2010). The 'transformational entrepreneur' is that kind of person, reflecting the predominant image of the entrepreneur as a person with a sense of mission, a great deal of energy and a willingness to take risks. When governments speak of the need to encourage entrepreneurs, it is this type of highly motivated businessperson they have in mind. The business environment plays an important role in encouraging – or discouraging – the entrepreneur, as shown in [Figure 1.2](#).



regulation broad term covering laws and rules relating to a particular type of activity or sector

While all of the factors highlighted in [Figure 1.2](#) are influential, some are more immediate in their impacts, and others are broad aspects of a country's environment. Availability of finance and business regulation have immediate impacts on start-up businesses. **Regulation** refers to the laws and rules relating to a particular type of activity or sector. The term covers both formal legal requirements and less formal guidance such as codes of practice. When formalities of forming a business are streamlined or access to finance is facilitated, a rise in new businesses is likely to result. The effects of improvements in education are slower in their impacts, as are improvements in infrastructure. On the other hand, the relaxation of strict labour laws can have more immediate effect, as a change in the law encourages businesses to hire more staff. It could also be observed that where labour laws are very restrictive, for example, limiting an employer's ability to dismiss an unsatisfactory employee, informal employment is common and workers are vulnerable to



exploitation. India is an example of this restrictive environment. Facilitating entrepreneurs by encouraging them to employ people formally should lead to more secure livelihoods for workers.

A new business is usually referred to as a 'start-up'. The founder of an enterprise is traditionally known as a **sole trader**, but now more commonly referred to as a **self-employed** person. The self-employed person is an independent contractor, and can be contrasted with the **employee**, who works for another person (the employer), usually for wages, and whose work is controlled by the employer. The employer is obliged to comply with laws that protect employees, which typically include sick pay, paid holidays and social charges. While there might seem to be a clear distinction between an employee and a self-employed person, in fact, the distinction is blurred. Much work is casual, such as work paid by the hour, with no commitment to a set number of hours per week. The worker on a **zero-hours contract** is obliged to be available for work, but is not guaranteed a minimum number of hours of work. With the rise of digital platforms such as Uber, the ride-hailing company, the **gig economy** has become more prevalent in the modern work environment. Traditionally, the gig economy is associated with musicians and actors, who, as freelance workers, move from one job to the next. Now, the gig-economy worker is more often the person whose work derives from a digital platform. In some businesses, such as delivery services, workers are classified as self-employed although their work is to a large extent controlled by the company that takes them on (discussed in Chapter 11). The company is thus able to avoid the costs and obligations that fall on an employer. The worker in this situation can experience the worst of both worlds: compelled to follow orders from the company, but not enjoying benefits of employment status such as paid holidays. This practice has been reviewed by courts in a number of countries, including the UK, where judges tend to look at the reality of the relationship, rather than the labels used by the parties (see the discussion in Chapter 11). Uber, the ride-hailing company, is an example, featured in a case study in Chapter 6.

The business of the sole trader has no independent existence separate from its owner. In practice, this means that if the business fails, the personal wealth of its owner can be used to cover the business's debts. In the worst scenario, the owner's resources could be wiped out in order to pay business debts. This risk is known as 'unlimited liability', and is one of the major drawbacks of being self-employed. Securing finance is one of the major challenges of the start-up business. The business at this stage might have only one or two employees, or even none, although it is common for family members to help out. It is a **small-to-medium size enterprise (SME)**. This category covers the vast majority of the world's business enterprises. The classification of SMEs is given below:

- **Micro:** 0–9 employees
- **Small:** 10–49 employees
- **Medium:** 50–249 employees
- **Large:** 250 or more employees

SMEs range from informal micro-enterprises to firms with up to 249 employees, making this a highly diverse category. These firms provide an important source of employment and economic activity in all countries. SMEs employ more people worldwide than large firms, in both developed and developing countries (de Kok et al., 2013). In developing countries, where levels of poverty are high, SMEs can be significant in job creation (de Kok et al., 2013). SMEs are a vital source of innovation, from agriculture to pharmaceuticals. SMEs in the high-technology sector are actively sought by large enterprises, keen to exploit their innovative ideas. High-tech

sole trader/ self-employed person

person who is in business on his or her own account

employee person who works for another (the employer), usually for wages, and whose work is controlled by the employer

zero-hours contract

employment arrangement whereby the worker is available for work but paid only for the hours worked, and the employer has no commitment to provide work

gig economy

category of work in which the person's working life consists of moving from one job to another, typically working as a self-employed person

small-to-medium size enterprise (SME)

business ranging from micro-enterprises of just one person to firms with up to 249 employees



SMEs set their sights on global markets from the outset. These are often referred to as 'born-global' firms (Tanev, 2012). Whereas a firm traditionally expands gradually from its local and national environment, the born-global firm's owners think from the outset in terms of international markets. Most are not the flamboyant risk takers that are sometimes depicted in the media. The successful entrepreneur is more likely to pursue a prudent strategy based on assessing each risk and keeping it within reasonable bounds (Mурman and Sardana, 2012).

Many well-known firms have grown from start-ups into global organizations. McDonald's, founded as a single hamburger outlet in the 1950s, is an example, as is Microsoft (founded in 1975) and Google (founded in 1998). Of the three, it is striking that Google, the most recent, has grown the quickest, becoming the world's dominant internet search engine in just a few years. The fact that these firms are all American is indicative that the cultural environment, as well as the legal and financial institutions, was favourable to entrepreneurs. Even so, the failure rate among start-ups is high, and any entrepreneur will admit that luck played a part in getting the business established.



Startups

Startups fail for many reasons. See what these experts on entrepreneurship say about success – and failure. 'Why do so many startups fail?', The Big Question from Chicago Booth, 30 November 2015.

Video link: [Startups](https://youtu.be/L_9OGInAT58)
https://youtu.be/L_9OGInAT58

franchise business agreement by which a business (the franchisee) uses the brand, products and business format of another firm (the franchisor) under licence

For individual entrepreneurs, the franchise business provides an attractive route to starting a business. The **franchise** agreement allows a businessperson to trade under the name of an established brand, backed by an established organization (the 'franchisor'), while retaining ownership of the business. Under the agreement, the business owner ('franchisee') pays fees to the franchisor organization for the right to sell its products or services. The franchisee does not have the freedom over the business that an independent owner would have, but stands a greater chance of success due to the strength of the established business 'formula' of the brand. Besides McDonald's, Burger King and other fast-food chains, there are numerous other goods and service providers, such as car rental companies, which have grown through the use of franchising.

Companies: the engines of business activity

A business can carry on indefinitely as an unincorporated association or enterprise, that is, without formal corporate status. However, when it grows beyond a size that can be managed personally by the owner, it is usual for the owner to register it as a company, to give the business a separate legal identity and separate financial footing. The **company**, also called a 'corporation', is a legal entity separate from its owners. Registration with the correct authorities in each country (or individual state in the US) constitutes its formal creation, drawing a line between the company's obligations and those of the owner(s). This means that its finances and legal obligations, such as tax, are separate from its owners. It is also possible to register as a European company within the EU, although for purposes such as taxation, the company is still considered a national entity. The company takes on a separate existence from its owners at the point when it is registered, by filing documents of its purpose and constitution with national authorities.

company legal form of organization that has a separate legal identity from its owner(s)



share in a company, represents ownership of the company to the extent of the amount invested

shareholders legal owners of a company

equity in corporate finance, the share capital of a company

limited liability principle that the shareholder is liable up to the amount that person or entity has invested in the company

private limited company company whose shares are not publicly traded on a stock exchange

public limited company (PLC) company which lists on a stock exchange and offers shares to the public

initial public offering (IPO) first offering by a company of its shares to the public on a stock exchange; also known as 'flotation'

Companies vary widely in their formation, legal status, ownership and goals. Most of the companies featured in this book are registered companies that are commercial enterprises whose founders go through the process of registration in a particular location. The person who invests money in the company, either at its formation or later, acquires shares in it. The **share** represents ownership of the company to the extent of the amount invested. The whole of a company's shares are its share capital, also known as its **equity**. The **shareholder** is liable up to the amount invested, and therefore enjoys **limited liability**. The founders are likely to be the first and largest shareholders (also known as stockholders). The introduction of limited liability made owning shares more attractive as an investment, and paved the way for widespread share ownership by the investing public. The shareholder who buys the company's shares is providing capital to enable it to function. The larger the stake (that is, holding of shares), the more influence the shareholder will expect to exert, although, in practice, controlling interests may make this difficult. A share in a company carries certain rights, including the right to receive dividends and (normally) vote in annual general meetings (AGMs). Importantly, the shareholder is a 'member' of the company, whereas the creditor of the company is not.

Registered companies may be private or public companies. The main distinction between the two is that shares in the public company (or a portion of them) are traded on a stock exchange, whereas shares in the private company cannot be traded on exchanges. The **private limited company** tends to resemble the family business in which the owner retains control. It has few shareholders, and these are 'insiders', often related. It is not allowed to sell its shares to the public. Private companies often face problems over raising capital, but some, such as Silicon Valley start-ups, have been successful in finding financial backers known as 'venture capitalists', who are willing to invest large sums in their businesses. Uber is an example, discussed in the opening case study in Chapter 6. So long as financial backers continue to invest in a new company, owners are likely to keep the company private, thereby ensuring their continuing control of the business.

The private company faces fewer requirements for disclosure of its financial position than the public company. Although most are SMEs, many large international businesses choose to remain private companies. An example is Bosch, the German engineering company. Private companies are key economic players in Germany and many other countries. Private companies are thus significant players in the global economy.

The **public limited company (PLC)** is a registered company that offers shares to the public, and is usually referred to simply as a public company. It invites the public to subscribe for its shares in an **initial public offering (IPO)**, also known simply as a 'listing' or 'flotation' on a stock exchange. Stock exchanges are regulated under national legal frameworks, and also governed by their own listing rules (see Chapter 8). Typically, they specify that only a portion of a company's shares need be floated publicly, that is, offered to the general public, in order to be listed. This portion can be only 20%, or even lower. The remaining shares are generally owned by a few insiders, or, in some cases, government bodies. For example, Gazprom, the Russian gas giant, is listed on the London Stock Exchange, but the company is majority owned by the Russian government. This arrangement is not uncommon, and can seem confusing. A public limited company listed on a stock exchange is considered legally to be in the *private sector*, whereas a *public-sector* entity is owned and controlled by the state. When a government decides to 'privatize' a state-owned organization, it begins by registering the company as a PLC. Gazprom, for example, was formerly the gas ministry of the USSR. Conversely, when a PLC is taken over by the state, it is said to be 'nationalized'.



Should we take the plunge and go public?

If an entrepreneur has a successful business as a private company, it used to be thought a logical progression to go public, but this is no longer considered to be necessarily the best way forward. Why would the entrepreneur be tempted to go public? Think of the potential benefits and also the risks.

The public company faces scrutiny of its accounts by national regulators in the country in which it is registered, and in countries where its shares are listed on exchanges. It should be noted, however, that global scanning for the most advantageous location affects these decisions, just as it affects the location of production facilities. The company might register in an offshore location such as a Caribbean state, where oversight is minimal, and it could well decide to list on a stock exchange where the regulatory requirements are weak, and where the dominance of insiders is not an obstacle. In the US, nearly half of all public companies are registered in the tiny state of Delaware. While not strictly offshore, it offers many attractions that offshore registration offers, and appeals to business founders who wish to maintain control of their companies. Among companies that have registered in Delaware are the familiar ones such as Facebook, but also thousands of companies that are little more than shell entities that are linked in opaque corporate ownership structures. Delaware's advantages include the ease with which company registration is facilitated and the business-friendly stance of its courts, but the darker side is facilitating non-disclosure of company ownership and activities.

In 2012, the number of registered corporate entities in Delaware exceeded the number of human beings in the state: there are just over 900,000 registered companies and under 900,000 people (Wayne, 2012). It is thus worthy of note at this early juncture that founders of companies which 'go public' often wish to 'have their cake and eat it': they wish to attract the public to buy shares, but they also wish to retain control of the company and take the major decisions themselves. Google, for example, has a dual share structure whereby founders' shares carry more voting rights than ordinary shares (they are weighted 10 to 1). Some public companies decide to take the reverse route and go back to being private companies. Some entrepreneurs wish to re-assert control over their business, as shown in the mini case study that follows.

MINI CASE STUDY

Taking a company private

Elon Musk, the flamboyant CEO (chief executive officer) of Tesla, the electric car company, announced in 2018 that he had 'funding secured' to take his company back into private ownership (Campbell and Pooley, 2018). Tesla had been listed on the Nasdaq exchange in 2010, and was worth over \$70 billion. Taking it private would involve a mammoth undertaking to buy out the investors, and it soon emerged that he did not have the means to accomplish this feat. He faced legal action from the US regulator, the Securities and Exchange Commission, for making false state-

ments. While Musk attracted investors in Tesla because of his appeal as a technological visionary, they have reason to be concerned about his sometimes erratic behaviour and statements.

Most entrepreneurs can appreciate the feelings of frustration arising from the external pressures on their companies when they become publicly listed. Market analysts are constantly focused on the latest share price, with little long-term view of the health of the company. Financial results are typically reported four times a year, leading to tensions surrounding expectations



each quarter. There are numerous other regulatory obligations that pertain to public companies. For example, whereas a private company can appoint any directors it wishes, the public company is obliged to appoint some independent directors, who can represent the wider interests of all the investors. This is a protection for the investing public, but can be seen by founders as an obstacle to realizing their vision. Because a range of investors and their interests are involved, the public company is in the glare of publicity. A larger-than-life entrepreneur, such as Richard Branson, has been keen on media attention when marketing his products, but has objected to media attention when it focuses on how his companies are run. His company, Virgin, was floated in 1986, but taken private again two years later.

The traditional CEO is careful in all media communications, aware that any statements could be misinterpreted and have a negative impact on the company's share price. Many entrepreneurs in today's high-flying tech companies are the opposite of this traditional CEO. They have grown their companies rapidly, often attracting outside investors who have seen the potential of their innovative ideas in the process. This attraction helps to explain the popularity of Tesla's shares, which translated into rising share prices, despite weak financial performance in the company's carmaking business. The modern entrepreneur's drive and vision can seem incompatible with the constraints of the listed company.

Questions

- What were the factors in Tesla's success?
- Would you advise investing in Tesla, or would you consider it too risky an investment?

Find out more

See the article focusing on Elon Musk, 'Colliding with reality', by Richard Waters and Peter Campbell, 16 June 2018, in the *Financial Times*.

functional areas

activities of a business which form part of the overall process of producing and delivering a product for a customer

Functional areas within the enterprise

Every enterprise, whether large or small, involves a number of different types of activity, or **functional areas**, which form part of the overall process of providing products for customers, often in numerous markets around the world. Physical resources, including plant, machinery and offices must be organized, and functions such as finance, production and marketing must be co-ordinated, to enable the entire enterprise to function smoothly as a unit. Every business carries out basic functions, such as finance, even though in a small business, it is unlikely to hire specialists in each area. By contrast, a large organization has separate departments. The importance of particular functional areas depends in part on the type of business. Product design and production, along with research and development (R&D), feature mainly in manufacturing firms, whereas all firms have need of finance, human resource management (HRM) and marketing functions. These functions cover the entire life of a product, from the design stage to the delivery of a final product to the customer. They even extend beyond the sale, to include after-sales service and recycling.

Core functional areas are set out in [Figure 1.3](#). At the centre of the figure is the company's central management, which is responsible for overall strategy. These senior managers determine what the company's goals are, and how best to achieve them. They are responsible for co-ordinating the activities of each functional area. We look at the part played by each of these functions in turn.

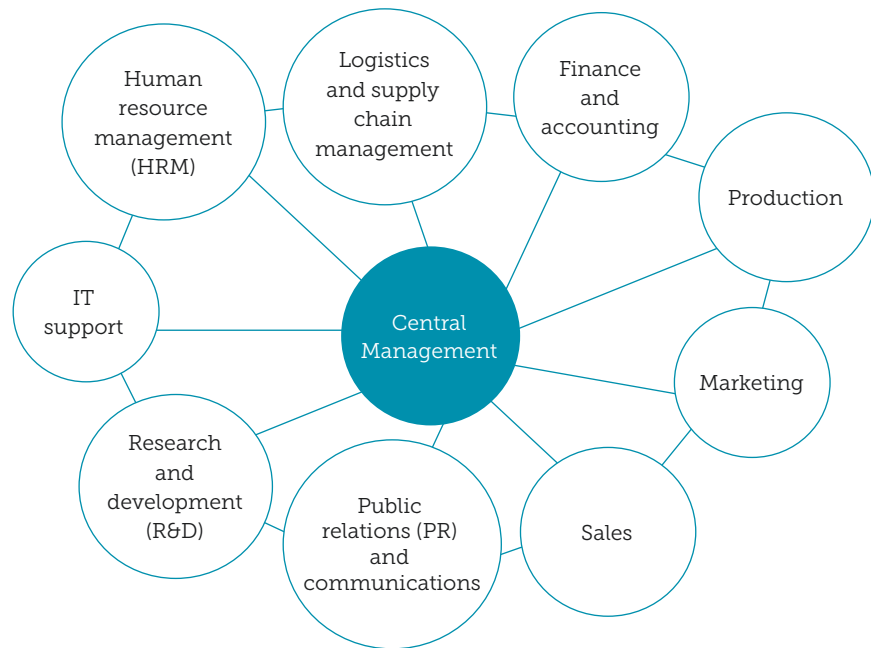


Figure 1.3 Functional areas of a business organization

- **Finance and accounting** – This function concerns control over the revenues and outgoings of the business, aiming to balance the books and to generate sufficient profits for the future health of the firm. This function is far more complex in large public companies than in SMEs. Trends towards more innovative finance and international operations have called for considerable professional expertise. At the same time, as discussed earlier, legal duties of financial reporting and disclosure are now increasingly under the spotlight. The company's chief financial officer (CFO) is a board member, and bears responsibilities for compliance with legal requirements.
- **Production** – Production spans the entire process of producing a product for sale in markets. This function covers tangible goods and services, and often a combination of both. Production focuses on the operational processes by which products are manufactured. Quality, safety and efficiency are major concerns of production engineers and managers. Quality and safety have become more challenging as manufacturing has shifted to diverse locations, and in some instances, companies have brought back to the home country operations that had been carried out by low-cost workers in outsourced factories. This is likely to occur in operations where computerized systems and robotics reduces the need for workers.
- **Logistics and supply chain management** – This functional area is closely linked to production, as supply chains are crucial to the production process. This is especially true for the manufacture of products that involve numerous components sourced externally. It is crucial for logistics solutions, involving transport and warehousing of products, to be as efficient and reliable as possible, to keep costs under control and to deliver orders to customers on time and according to their contractual terms.
- **Human resource management (HRM)** – Formerly known as 'personnel management', HRM focuses on all aspects of the management of people in the organization, including recruitment, training, and rewarding the workforce. In the large, hierarchical organization, these activities are formally structured,



whereas in the small organization, they tend to be carried out informally, with less paperwork and less reliance on formal procedures. Organizations have become sensitive to the need to take into account the individual employee's own goals and development, as well as the needs of the company. International HR strategy is challenging. Each country has its own set of employment laws, and in each country, social and cultural factors play important roles in work values and practices. International HR managers increasingly realize the fact that motivating staff in different locations requires differing approaches and reward systems.

- **Marketing** – Marketing covers a range of related activities, including product offering, branding, advertising and pricing. Marketing aims to satisfy the needs and expectations of customers with products that offer a winning combination of value and attractive price. While global companies aim to create a strong brand image across their product range, they adapt products and marketing communications to differing country markets. They rely on market research to understand customer preferences in each market, both in terms of products and customer relations. Marketing is an area in which regulation is an important consideration, national authorities playing an active role in regulating, for example, product safety and advertising.
- **Sales** – Sales are central to any business, and sales specialists work closely with marketing specialists to establish the company's products in particular markets and to launch new products. Sales specialists must focus on how best to sell particular products in each market, including how best to price it to generate sales. The company's competitive position in each market depends heavily on the expertise of those in its sales department.
- **Research and Development (R&D)** – R&D is the function of seeking new knowledge and applications which can lead to new and improved products or processes. R&D activities are part of the larger focus on innovation in the company, and can take place within any of the functions listed in this section. R&D can focus on scientific and technical research, which is key to new product development. Pharmaceutical companies typically spend huge sums on R&D, as new medicines are their chief source of profits. For a media or internet company, innovation relies on creating new content (often adapted to new markets) and new ways of delivering content to the consumer.
- **IT and support services** – It has become all too common for IT problems to upset production schedules, cause customers to be disappointed and cost substantial sums of money to put right. The security of the organization's data and systems can be threatened, posing long-term risks to the business. Having reliable and secure IT systems able to cope with the changing needs of the business, along with the ability to respond quickly to glitches in the system, is crucial to a business. This support function is central to the firm's activities in all the functional areas, as an IT malfunctioning in one can have knock-on effects in others. The IT system must support the gathering and storage of the firm's data, facilitate internet networking with other firms, and offer security against threats such as leakage of data and cybercrime.
- **Public relations (PR) and communications** – The traditional function of PR, which suggests a focus on publicity, has given way to a greater emphasis on quality communications involving the range of a company's stakeholders. While ongoing communication is essential to stakeholder relations, it is also vital in relation to regulatory authorities, consumers and the general public. The rise in social media has transformed communication channels, enabling companies to reach a wider



public, and also enabling consumers to acquire information about the company – often information that the company might prefer not to be disclosed through the social media. Managing communications is thus an important function for meeting consumer and investor expectations and also answering their concerns. Documents such as an annual CSR or sustainability report have become an important aspect of the large company's approach to communication.

An organization's central management has the ultimate control over the ways in which these functional areas carry out the company's goals. While each area is distinctive, all must be co-ordinated with each other, as [Figure 1.3](#) shows. Finance and IT are crucial to each of the functional areas – and there is likely to be tension regarding the allocation of funds. For example, should the marketing budget be reduced in order to focus more on R&D? In today's company, where costs are a paramount concern, the possibility of outsourcing business processes is relevant to most of these functional areas. We have seen that production is often outsourced, and many 'back-office' activities, such as accounting, finance, administration and customer relations can be outsourced to specialist service providers, often in low-cost locations.

Each of the business functions adapts and changes as a business expands internationally, as the following examples show:

- Financial reporting will involve different regulatory environments and accounting standards.
- Operations will be linked in global production networks.
- HRM will adapt to different cultures and laws.
- Marketing strategy will be designed for differing markets.
- R&D will be configured in different locations according to specialist skills in each.

For the international manager, an understanding of the differing cultural environments where the company operates, and the various functional activities which take place in each unit, are crucial to the overall achievement of the company's goals. A company's approach to these challenges depends heavily on its own background and its relations with stakeholder organizations.

The multinational enterprise (MNE)

Both private and public companies abound in the international environment. As they extend their operations outwards from their home countries, their organizations become more complex. A company can grow 'organically' by increasing its capacity and going into new markets without making major structural changes to the organization. When company executives become more ambitious internationally, they contemplate changes with deeper structural implication. A result has been a thriving global market in corporate ownership and control. As its strategy evolves, a company might buy other companies and sell those it no longer wishes to own. It might also buy stakes in other companies, often as a means of participating in a network of firms, rather than for purely ownership motives. This constant re-configuration of companies and businesses has become a prominent feature of the global business environment. In these ways, companies can grow relatively quickly internationally and adapt their businesses organizationally as changes in the competitive environment occur. The main organizational arrangement through which these changes take place is the multinational enterprise.

The **multinational enterprise (MNE)** is a broad term signifying a lead company (the parent company) which has acquired ownership (whole or partial) and other contractual ties in other organizations (including companies and unincorporated

multinational enterprise (MNE) an organization which acquires ownership (whole or partial) or other contractual ties in other organizations (including companies and unincorporated businesses) outside its home country



businesses) outside its home country. The parent company co-ordinates the business activities carried out by all the organizations within the MNE's broad control.

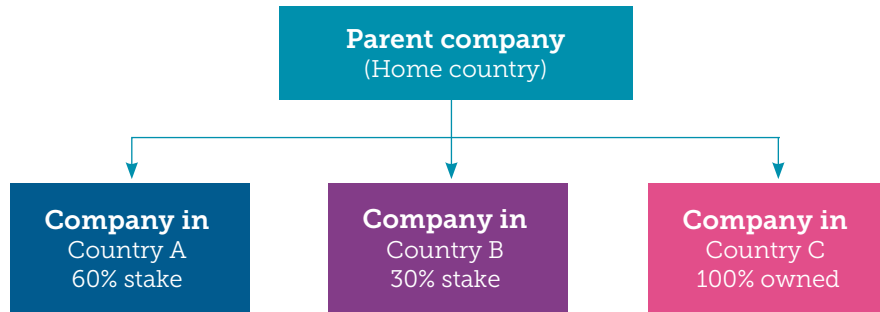


Figure 1.4 The multinational enterprise (MNE)

The MNE as an organizational form is not a strictly legal category, but it is recognized as central in international business organization and has been a key driver of globalization, discussed in the next chapter. The term covers businesses of all sizes, from SMEs to global companies with hundreds of thousands of employees. It covers private companies as well as public ones. Typically, the parent company located in the home country co-ordinates the activities of other companies in the group. If the parent company owns a majority stake in another company, that other company is a **subsidiary**. Where the ownership stake is less than half, the other company is considered an **affiliate** company. The MNE thus operates through a range of subsidiaries and affiliates, usually connected in supply chains. The parent company can exert strong control over a subsidiary, or it can operate on a loosely co-ordinated basis, delegating much decision-making to local managers. A simple MNE is shown in Figure 1.4. In the figure, only the company in Country C is wholly owned and controlled. It is thus a subsidiary company. The parent has a 60% equity stake in the company in Country A, making it also a subsidiary, as this gives the parent a controlling stake. The 30% stake in the company in Country B makes this company an affiliate. MNEs can have quite complex webs of affiliates, and in some countries, especially in Japan and South Korea, affiliates own shares in each other, known as 'cross-shareholding', thereby giving the parent company effective control over an affiliate even though it might own only a small stake itself.

The MNE parent company can be a **holding company**, that is, simply an umbrella company that owns the multiple companies or divisions that make up the business. An example is Google's parent company, Alphabet. The parent company is likely to be registered in its home country, and its subsidiaries registered in the countries where they carry out their activities. Hence, the subsidiary can be viewed as a 'local' company, even if controlled by a foreign parent. In some countries, foreign investors are not permitted by law to own 100% of a local company, but a sizeable stake can bring considerable power. In another twist, a private parent company can control subsidiaries which are publicly listed in their countries of operation (an example is the steel company, ArcelorMittal). Managing subsidiaries in different country environments is one of the major challenges for today's international managers, heightened by the expansion of competitive MNEs from developing and emerging economies.

Corporate governance: Shareholders and other stakeholders

The sole trader or sole owner of a company may well take all the major decisions for the business, unfettered by the wishes of other owners and not accountable to anyone else within the business. Still, even a micro-enterprise has stakeholders, in

subsidiary company a company owned wholly or substantially by another company, which is in a position to exert control

affiliate company organization connected through ownership stake or other strategic ties to an MNE, often in supply chains

holding company an umbrella company that owns the multiple companies or divisions that make up the business



that it exists in a community, has customers, makes an environmental impact and must comply with regulatory authorities. A company's highest decision-making processes constitute its corporate governance.

Corporate governance refers to the highest decision-making structures and processes in the company. It differs from business to business, and is influenced by national economic, social, cultural and legal environments. It reflects broad perspectives on the company's role in society, which have come under the spotlight in the wider debate on corporate governance and CSR in recent years. A company's own heritage and corporate culture influence its corporate governance, both formally and informally. National governments have oversight of corporate governance, but most are reluctant to intervene actively in what is considered the internal governance of private-sector companies. Many would prefer the law to lay down broad principles rather than prescriptive frameworks, on the grounds that a one-size-fits-all approach is not appropriate.

The **Organisation for Economic Co-operation and Development (OECD)** (at www.oecd.org), which was established by representatives of the world's main developed economies in 1961, has been active in giving guidance on corporate governance (see Chapter 2 for details of the OECD). The OECD's overarching principles support market economies and democratic institutions. Since 1999, it has published a set of Principles of Corporate Governance, which are intended to guide companies generally on best practice. These have become recognized as benchmark principles globally. While they are addressed mainly to large public companies, they are relevant to both public and private companies, and apply to companies with differing board structures (discussed below). Moreover, they are now addressed to the G20 group of countries, which include developing and emerging economies.

OECD and G20 representatives took part in discussions that culminated in the publication of the most recent version, which was issued in 2015, replacing the 2004

corporate governance the highest decision-making structures and processes in the company

Organisation for Economic Co-operation and Development (OECD) organization of the world's main developed economies, which supports market economies and democratic institutions

Table 1.1 Corporate governance principles recommended by the OECD and G20

Principle	The corporate governance framework should:
1	<ul style="list-style-type: none"> Promote transparent and fair markets Be consistent with the rule of law Support effective supervision and enforcement
2	<ul style="list-style-type: none"> Protect and facilitate the exercise of shareholder rights Ensure the equitable treatment of all shareholders, including minority and foreign shareholders
3	<ul style="list-style-type: none"> Provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance
4	<ul style="list-style-type: none"> Recognize the rights of stakeholders established by law or through mutual agreements Encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises
5	<ul style="list-style-type: none"> Ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance
6	Board responsibilities: <ul style="list-style-type: none"> Ensure strategic guidance of the company, effective monitoring of management by the board and the board's accountability to the company and the shareholders Apply high ethical standards and take into account the interests of stakeholders Align key executive and board remuneration with the longer term interests of the company and shareholders Exercise effective independent judgment on corporate affairs Consider a sufficient number of non-executive board members capable of exercising independent judgment

Source: OECD (2015) *G20/OECD Principles of Corporate Governance*, OECD Publishing, at www.oecd-ilibrary.org