International Management and Entrepreneurship

Sylvie Formánková
Mendel University in Brno

Iveta Ubrežiová
Katolícka univerzita v Ružomberku

Slovak University of Agriculture in Nitra
Faculty of Economics and Management

Iveta Ubrežiová, Sylvie Gurská

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Authors: prof. Ing. Iveta Ubrežiová, CSc.
Slovak University of Agriculture in Nitra, Slovak Republic
Ing. Sylvie Gurská, Ph.D.
Mendel University, Brno, Czech Republic

Reviewers: doc. Ing. Ladislav Rolínek, Ph.D.
University of South Bohemia, České Budějovice, Czech Republic
Ing. Mariana Dúbravská, Ph.D.
University of Presov, Prešov, Slovak Republic

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Content

Preface

The textbook International Management and Entrepreneurship consists of four chapters. These chapters include the basic information about international management and entrepreneurship, political, legal and technological-environmnet, business ethics in international environment as well as role of the culture in international business.

This textbook is recommended to all readers and students who are interested in international management and entrepreneurship.

authors

CHAPTER I

Introduction to International Management and Entrepreneurship

Learning objectives:

- to define the origin of international management and entrepreneurship
- to explain the internationalization
- to explain the globalization

Introduction

The beginning of 21st century is characterized by an adaptation of many companies for entrepreneurship on domestic and host markets. The common entrepreneurship is over the borders and the international business is more developed.

International management and business is everywhere and affects us all on daily basis. **Individuals and organizations therefore need to a global as well as a local business environment and how to manage and market across cultures, trade across national and legal boundaries and plan for an ever more competitive and unpredictable future.**

The theory of international management and entrepreneurship is taken into account as an issue of internationalization and globalization. These ones are keywords in E – Europe.

1. The roots of international management and entrepreneurship

We know more definitions of international management:

- **International management is concerned with ownership and management of assets and operations beyond the borders of one´s home country.** The manager´s fundamental responsibilities for planning, leading and controlling remain intact, but these activities become more complicated and challenging as organizations enter multicultural environments.
- **International management is doing planning, organizing, leadership and controlling in more than one country.**
- **International management is about how firms become and remain international in scope.** It is about the practice of management when a home - market perspective is no longer enough to achieve and sustain success.

A manager´s success in these circumstances depends partially on individual qualifications, such as language skills or technical knowledge. People from various nations have comparative strengths or unusual characteristics that not only heighten competition but also enrich everyone´s lives with new goods and services. **A global manager** takes an even broader perspective, seeking involvement with people throughout the world who can synthesize their talents. An international manager who participates only modestly in foreign activities, just like one who fulfils global responsibilities, must gain understanding of his or her own culture and then learn about other cultures and the values of colleagues. The managers in multinational companies (MNC) know that **their management requires specialized skills.** It means that the international businessmen must be knowledgeable about cultural, legal, political, and social differences among countries. They must choose the countries in which to sell their goods and from which to buy inputs. International managers must also coordinate the activities of their foreign subsidiaries while dealing with the taxation and regulatory authorities of their home country and the all countries in which they do business. From this viewpoint Ubrežiová (2007) and Pichanič (2004) explain the following terms:

- **Home country** - the country in which the parent company´s headquarters is located;
- **Host country** - the country in which entrepreneurial subject implements own business activities by daughter companies;
- **Functional manager** - is responsible for knowledge transfer throughout international spectrum of organization;
- **Expatriate** - a manager or a worker working in a foreign country (sent from home country to abroad);
- **Inpatriate** - a manager or a worker working in a domestic country (sent from abroad to home country);

- **Third country nationals (TCN)** - a manager or a worker from the third country (either from home or from the host country).

International business consists of business transactions between parties from more than one country. Examples of international business transactions include buying materials in one country and shipping them to another for processing or assembly, shipping finished products from one country to another for retail sale, building a plant in a foreign country to capitalize on lower costs, or borrowing money from a bank in one country to finance operations in another. The parties involved in such transactions may include private individuals, individual companies, groups of companies, and/or governmental agencies (Griffin - Pustay, 2007).

At the end of this subchapter we want to explain a distinction between two terms that describe international business enterprises: transnational corporation and Multinational Corporation. **The transnational corporation (TNC)** is a term that has been widely used by United Nations (UN) since the early 1980s that distinguishes „globally integrated“ organizations from those that undertake national transactions without expansive international responsibilities or interests. The UN has encouraged wider use of the **term transnational corporation** in a generic way to indicate a multinational enterprise with global interests.

A multinational corporation (MNC) is a company with significant direct foreign investment in at least one foreign nation other than its home country, and with actual management responsibility for activities in its foreign operations. This definition may imply an assumption that the MNC sells in foreign markets, but that is not always the case. Some multinational companies import resources from overseas operations (e.g., those in the mining, petroleum extraction, and forestry industries), and more extensive MNCs carry out manufacturing in overseas facilities, selling this output in domestic or other foreign markets.

On the other hand, the term **multinational corporation (MNC)** is used to identify firms that have extensive involvement in international business. A more precise definition of a multinational corporation is a firm „that engages in foreign direct investment and owns or controls value adding activities in more than one country“. In addition to owning and controlling foreign assets, MNCs typically buy resources in a variety of countries, create goods and/or services in a variety of countries, and then sell those goods and services in a variety of countries. MNCs generally coordinate their activities from central headquarters but may also allow their affiliates or subsidiaries in foreign markets considerable latitude in adjusting their operations to local circumstances. Some writers distinguish between multinational corporations and **multinational enterprises (MNEs)**. Moreover, non-for-profit organizations, such as the International Red Cross, are not true enterprises, so the term **multinational organization (MNO)** can be used when one wants to refer to both non-for-profit organizations and profit seeking organizations.

Generally speaking, **a multinational company or transnational company** is an enterprise that engages in foreign direct investments and owns or controls value adding activities in more than one country.This is the definition of a multinational company and one that is widely accepted in academic and business circles.

1.1 The process of internationalization and globalization-theoretical and practical issues

Effective globalization and internationalisation process starts with knowledge of key variables in the global business environment. In any industry or country, managers must have an overall knowledge of the wheres, whats, whys, and hows of the countries and regions of the world. This knowledge can be used as an initial way to identify the threats and opportunities that might arise in their international operations.

There are various **definitions of internationalisation.** Definition by Beamish et al. (2000) is used: „the process by which firms increase their awareness of the influence of international activities on their future, and establish and conduct transactions with firms from other countries".

Internationalisation theory links Caves´s explanation for direct foreign investments to Coase´s theory of the firm. Coase explains that the growth of the firm can be understood as the successive incorporation into the firm (internationalisation) of previously external (market) transactions because effecting transactions within the firm rather than through the market has several benefits. The major benefit of internationalization is a reduction of transaction costs which enables the enterprise to either reap greater profits or futher reduce the price of its product. In addition, the internationalization of transactions across national borders has certain political advantages: enterprises gain tariff advantages as well as circumvent foreign exchange controls. The international transactions can influence a firm´s future in both direct and indirect ways. A key element of the internationalisation process concerns „where" a organization chooses to do business outside its country. Many firms conduct an incomplete analysis of potential markets. In part, it is due to a lack of awareness regarding global demographic.

The internationalization can be perceived as a part of the ongoing strategy process of most business firms. The main differences between internationalisation and other types of strategy processes are as follows: first, when products, services or resources are to be transferred across national boudaries, the firm has to select the international exchange transaction modality, i.e. a foreign market entry strategy.

Internationalisation affects the SME firms in important ways from an inward perspective, which incorporates an awareness of the impact of global competitors on the ability of domestically oriented firms to compete. According to Melin (1992) the internationalization can be perceived as a part of the ongoing strategy process of most business firms. The main differences between internationalization and other types of strategy processes are as follows: first, when products, services or resources are to be transferred across national boundaries, the firm has to select the country where or with whom transactions should be performed. Secondly, the firm has to select the international Exchange transaction modality, i. e. a foreign market entry strategy (Andersen and Buvik, 2002).

Firms become international in scope for a variety of reasons – some proactive and some reactive. These include a desire for continued growth, an unsolicited foreign order, domestic market saturation and the potentional to exploit new technological advantages. The dominant reason relates to performance. There is clear evidence that among the largest multinational enterprises, a strong correlation exists between improved performance and degree of internationalisation. Geographic scope is positively associated with firm's profitability, even when controlling for the competing effect of the position of property assets. There is a value in internationalisation itself. There are various definitions of internationalisation. Definition by Beamish et al. (2000) is used: „the process by which firms increase their awareness of the influence of international activities on their future, and establish and conduct transactions with firms from other countries". According to Dassbach (1989, internationalisation theory has its roots by Caves in 1971. Internationalisation theory links Caves´s explanation for direct foreign investments to Coase´s theory of the firm. Coase explains that the growth of the firm can be understood as the successive incorporation into the firm (internationalisation) of previously external (market) transactions because effecting transactions within the firm rather than through the market has several benefits. The major benefit of internationalization is a reduction of transaction costs which enables the enterprise to either reap greater profits or futher reduce the price of its product. In addition, the internationalization of transactions across national borders has certain political advantages: enterprises gain tariff advantages as well as circumvent foreign exchange controls. The international transactions can influence a firm´s future in both direct and indirect ways. A key element of the internationalisation process concerns „where" a organization chooses to do business outside its country. Many firms conduct an incomplete analysis of potential markets. In part it is due to a lack of awareness regarding global demographic. Andersen and Buvik (2000) have presented that the internationalization can be perceived as a part of the ongoing strategy process of most business firms. The main differences between internationalisation and other types of strategy processes are as follows: first, when products, services or resources are to be transferred across national boudaries, the firm has to select the international exchange transaction modality, i.e. a foreign market entry strategy.

The next stage of internationalisation is globalisation. This one results from the trade liberalization, opening economies, processes and reinforcing the worldwide competition. The basis of globalization is the countries integration that consists of linking their economic processes which include foreign trade, investments and production. It is connected with migration of goods, services, production factors, labor, capital and technology. It causes that competition becomes stronger and there are more competitors who act in global market. According to Sporek (2005), globalisation is also based on information and high technology development. Information, knowledge and know – how have become the most valuable assets of every organization. The development of high technology and new fast means of transport contribute to the „world shrinking" process. It creates the „global village" phenomen. Transnational corporations realize these aspects the most effective and therefore, they are the main entities which influence the globalisation process. The globalisation is a complex process which changes as well as has the potential to change the various events in the world at multiple levels. It is widely recognized that there are multiple faces of globalisation including political, economic and cultural environments.

Business decisions made in one country, regarding such things as foreign investments and partnership arrangements, can have significant impact on a firm in a different country. The development of an awareness and appreciation for the role of foreign competition becomes an integral part of the internationalisation process. Internationalization has inward - looking and outward – looking dimension. The outward – looking perspective incorporates an awareness of the nature of competition in foreign markets and includes the following modes of activities: exporting, acting as licensor to a foreign company, establishing joint ventures outside the home country with foreign companies as well as establishing wholly owned businesses outside the home country. Internationalisation affects firms in important ways from an inward perspective which incorporates an awareness of the impact of global competitors on the ability of domestically oriented firms to compete. All of these modes and influences are relevant to the internationalisation process and are often overlooked. Based on the information above we can explain that the internationalisation process of a firm can be solved from two main aspects: economic or behavioural perspectives. Behavioural – related theories refer to the organizational and social side, like the decision process by Aharoni (1966) who argues that: "Foreign direct investment is seen as a complicated social process. Many different attitudes and opinions, social relationships both inside and outside the firm and the way such attitudes, opinions and social relationships are changing." But the theoretical approaches differ in their focus. Some concentrate on the factors causing internationalisation and some concentrate on the internationalisation process itself.

1.1.1 Globalization from the general viewpoint

The globalization is a term used to describe a multi-causative process which has as a result the fact that the events which take place in some part of the globe have wider and wider repercussion on the societies and problems from other parts of the globe. There isn't any definition of the globalization in a universal accepted form and, probably, not even final. The reason consists of the fact that the globalization sub-includes a multitude of complex processes with a variable dynamic, touching diverse domains of one society (Lupan, Perlipcean, 2009). Globalization means different things to different people. The most general sense of the term is "applying to the whole earth". However, different specialists use the term with other meanings focused on their particular interests:

- globalization for politicians and political scientists
- globalization for economists
- globalization for industrialists
- globalization for marketing managers
- globalization for sociologists (Mead, Andrews, 2010).

Daniels, Radebaugh and Sullivan (2007) use the globalization that means "doping relationship and broadening interdependence among people from different parts of the word, and especially among different countries". Throughout history recorded as people have established contacts over a wider geographic area, they have expanded the variety of resources, products, services, and markets available to them. They have altered the way they want and expect to live, and they have become more deeply affected (positively and negatively) by conditions outside their immediate domains.

In politics and international relations the term „globalization" refers generally to increasing dependence between national and international bodies (Mead, Andrews, 2010). Barriers between nations are reduced in importance and hence the autonomy of nations is undermined. National governments and their agencies lose responsibility and control over local decision-making, and individuals are even further removed from the locus of power.

Blowfield and Murray (2011) state that globalization is associated, on the one hand, with a limited set of global governance mechanisms and weakened national governments, and on the other hand, with unprecedented private sector wealth, power, and impact.

However, there is a lot of confusion about what is meant by globalization. Some political economists argue that we should think more broadly than just economics: that we should see globalization as a social condition that also includes politics, culture, ethics, ecology, and all of the other facets that affect human life.

Is it possible to measure globalization?

Schulze and Ursprung (1999) say there is no firm agreement about how to measure globalization. One reason is that it is a difficult concept to measure at all (Schulze, Ursprung, 1999 in Daniels, Radebaugh, Sullivan, 2007). Currently about 25 percent of world production is still sold outside its country of origin, as opposed to about 7 percent in 1950. Restrictions on import have been decreasing and foreign ownership of assets as a percentage of world production has been increasing. Almost every year since World War II, world trade has grown more rapidly than world production. At the same time, globalization is not as pervasive as it might appear on the surface. Only a few countries, mainly very small ones, either sell over half their production abroad or depend on foreign output for over half of their consumption. Thus, most of the world´s goods and services are still sold in the countries where they are produced. Further, the principal source of capital in almost all countries is domestic rather than international. Finally, some countries are more globalized than others. **The A.T. Kearny/Foreign Policy Globalization Index ranks 62 countries across four dimensions:** economic (international trade and investment), technological (Internet connectivity), personal contact (international travel and tourism, international telephone traffic, and personal transfers of funds internationally), and political (participation in international organizations and government monetary transfers). (Daniels, Radebaugh, Sullivan, 2007).

The Globalization Index 2011 released by Ernst & Young showed that Singapore was ranked third after Hong Kong and Ireland among 60 largest economies in the world. The Globalization Index measures and tracks the performance of the world's 60 largest economies in relation to separate indicators in five broad categories: openness to trade; capital movements; exchange of technology and ideas; movement of labor; and cultural integration. Hong Kong ranks first in openness to trade, capital movements and cultural integration. (Ernst & Young, 2012)

Other index - the KOF Index of Globalization was introduced in 2002 (Dreher, 2006) and is updated and described in detail in Dreher, Gaston and Martens (2008). The overall index covers the economic, social and political dimensions of globalization.

Economic globalization is here characterized as long distance flow of goods, capital and services as well as information and perceptions that accompany market exchanges.

Political globalization is characterized by a diffusion of government policies.

Social globalization is expressed as the spread of ideas, information, images and people.[1] (Dreher, Gaston, Martens, 2008)

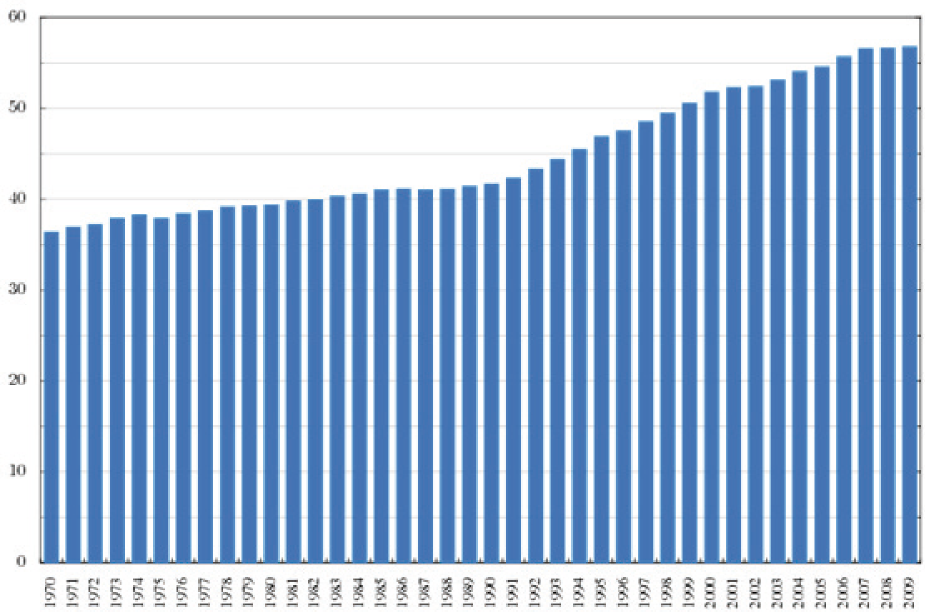

Figure 1.1 KOF Index of Globalization – World (Source: http://globalization.kof.ethz.ch/)

1 The 2012 index introduces an updated version of the original index, employing more recent data than has been available previously. For more information about the methods of measurement see: http://globalization.kof.ethz.ch/

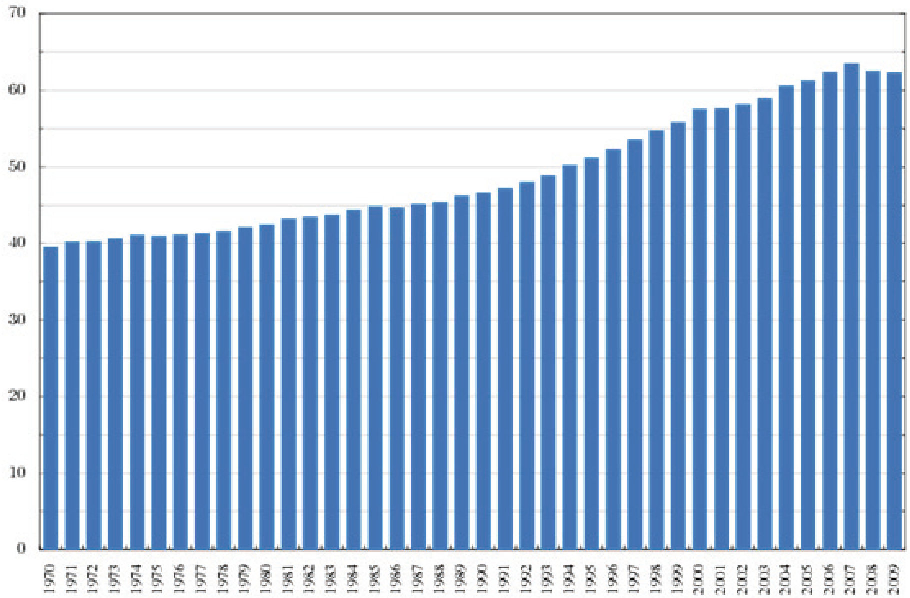

Figure 1.2 KOF Index of Economic Globalization – World
(Source: http://globalization.kof.ethz.ch/)

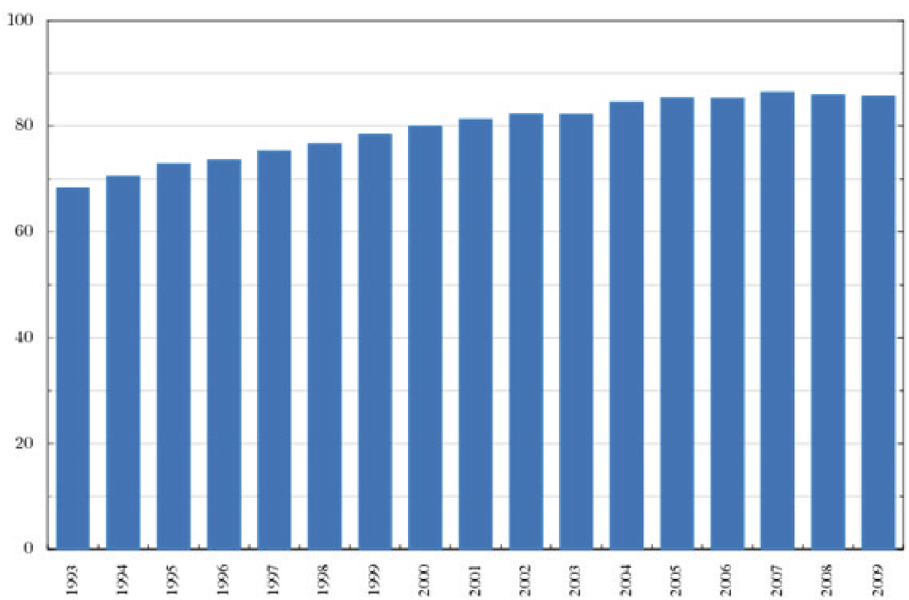

Figure 1.3 KOF Index of Globalization – Czech Republic
(Source: http://globalization.kof.ethz.ch/)

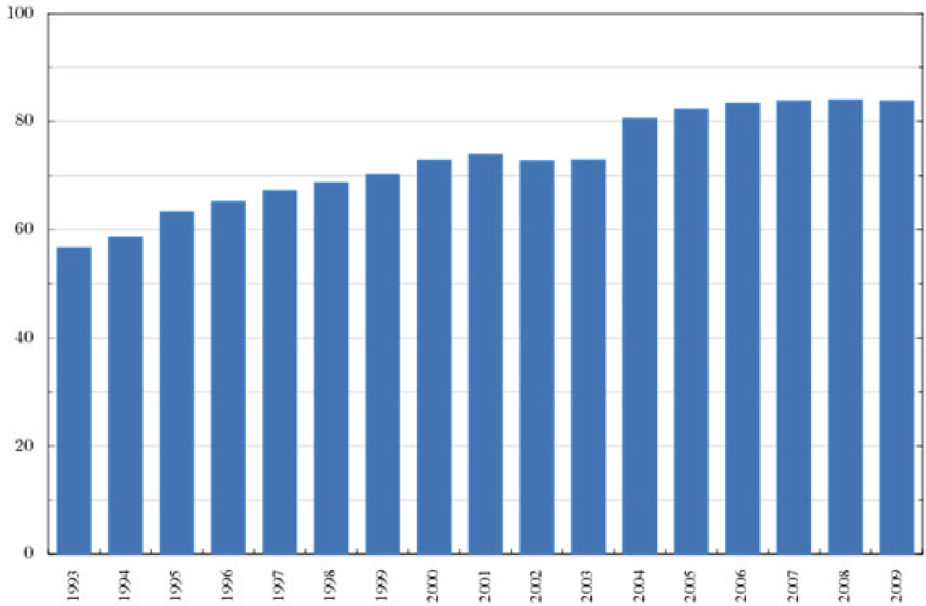

Figure 1.4 KOF Index of Globalization – Slovakia (Source: http://globalization.kof.ethz.ch/)

According to this index in 2012 on the first three places are Belgium (92.76), Ireland (91.95) and Netherland (90.94). Czech Republic is on the 13th place (85.76), Slovakia on the 19th place (83.83).

According to Elo (2005) **globalization** means a shift in patterns of international production, investments and trade. Each of activities has a location which is becoming increasingly global. The economic globalization has functional and geographical entities which refer to the need for "mapping" and "submapping" of the network structure as a whole.

A major reason for the rise of multinational enterprises is their demonstrated ability to organize business activities on a multicountry basis. Firm involves both geographic configuration and international coordination and integration. It means that the firm structures through international companies which carry out their activities. The structures include the international division, area division, global product division, and the transnational option. Each structure represents a compromise – an attempt to balance the inherent strengths and weaknesses of form chosen. Each structure must reconcile ease of administration with customer responsiveness and parent company versus subsidiary perspectives. All of this must be done in the context of the sovereign concern of different national governments, and sometimes widely different cultures. The globalisation is the most recent phenomenom among global issues reffering to the process of creating wider opportunities for global economic integration.

By Banerji and Sambharya (1998), competition in global industries is shifting increasingly from interfirm rivalry to rivalry between networks of firms. Strategies for individual firms are thus contingent on the degree of interdependence that exists between them and the core firm in the network. Affiliate firms have two options available: first – enter competitive strategic alliance with competitors or second – enter a symbiotic strategic alliance with the core firm of the network organization. Holt (1998) explains that many international organizations involve complicated associations and alliances between multiple divisions and individuals on several continents. This structure may encompass hundreds of operating divisions with multifaceted purposes, often performing interdependent activities. Ownership can also be complex, bringing together private and government interest, holding companies, joint venture partners, and networks of subsidiaries. The organizational chart (if one exists) might resemble a spider web more than a pyramid, and even those threads may vary regularly since global activities have changed so rapidly that a company´s organization often reflects a fluid mosaic of relationships. Within this framework, companies of many nationalities expand into international markets. Some of them simply export, others invest in foreign facilities, and global companies create organizations of integrated technology with world – brand goods, services, and system of management. Within such a variable world, no single description adequately characterizes international business. International companies choose to expand in many ways and they employ a wide variety of strategies. Specifically, it will explore recent social and economic changes for major economies and for those in transition, followed by a look into technological factors that influence growth and international management. It will also address important challenges facing managers within culturally diverse international organizations. Due to the difficulty of integrating already existing foreign management, cultural differences are likely to be especially important in the case of an acquisition. In contrast to an acquisition, a joint venture frequently serves the purpose of assigning management tasks to the local partners who are better able to manage local labour force and relationships with suppliers, buyers and governments, but at the cost of sharing control and ownership. Based on these facts, the authors concluded the greater cultural distance between the country of the investing firm and the country of entry, the more likely the firm will choose a joint ventures or wholly owned greenfield over an acquisition.

Globalisation has had significant impact on almost all economies of the world, with immense effects. It affects production of goods and services in these countries. Further, it affects the deployment of labour and other inputs into the production process. In addition, it also affects investment, both in physical capital and in human capital. It affects technology and results in the diffusion of technology from initiating nations to other nations. It also has major effects on efficiency, productivity, and competitiveness. Even thought globalisation affects the world’s economy in a very positive way, its negative side is present too. Globalisation is just like a two-edged sword, bringing us not only a series of enormous benefits, but also a potential destruction. No one can deny its presence at the same time; we must make sure we prevent its negative effects. There are abundant facts to prove its positives.

Taking international trade as an example, it provides people from trading countries more chances to enjoy new products which they would have never come across without having to travel to another country. Besides that, the ongoing progression of products also provides a large number of employment opportunities for the local people who in return increase the standard of living for their families or individuals.

Furthermore, it is an effective approach to promote cultural communication among different countries. Although there is high number of benefits, we cannot neglect the by-products globalisation brings along with it. For instance, cultures of developed countries are replacing the undeveloped countries to some extent. More and more people, especially the young generation, give up their local culture and focus their attention on the foreign ones. In conclusion, due to the existence of both positive and negative aspects that globalisation brings about, we should do our best to control its negative aspects while enjoying the positive ones.

1.2 The origin of globalization

According to Daniels, Radebaugh and Sullivan (2007) factors influencing the increased growth in globalization in the recent decades are:

1. Increase and expansion of technology.
2. Liberalization of cross-border trade and resource movements.
3. Development of services that support international business
4. Growing consumer pressures.
5. Increased global competition.
6. Changing political situations.
7. Expanded cross-national cooperation.

These factors are often interrelated.

Technology is expanding especially in transportation and communications. Governments are removing international restrictions. Institutions provide services to ease the conducts of international business. Consumers know and want foreign goods and services. Competition has become more global. Political relationships have improved among some major economic powers. Countries cooperate more on transnational issues (Daniels, Radebaugh, Sullivan, 2007). Stohl (2004) says that **six dynamic and interdependent processes of globalization** are embedded virtually in all theories of globalization:

1. The dramatic increase in economic interdependence worldwide
2. The intensification and deepening of material, political, and cultural exchanges
3. The global and rapid diffusion of ideas and knowledge enabled through new information technologies
4. The compression of time and space
5. The disembedding of events and institutions which permits new realignments and restructuring of social interaction across time and space
6. Increases in global consciousness through processes of reflexivity

Mead and Andrews (2010) state that high globalization has specific historic and cultural roots that can be located precisely in time. This aspect of globalization arose from:

- internationalization of finance,
- internationalization of production,
- development of information technologies.

The internationalization of finance means, first, that business people everywhere should be able to move capital around the world almost instantaneously and without hindrance from national governments. In practice, American influence over the international regulatory authorities gives American companies a leading edge. Second, the drive towards globalization has been led by the financial industries and other service companies; with the exception of the oil producers, most business that sells a manufactured product has been outstripped.

The globalization of production was facilitated by the globalization of finance. The breakdown of localized exchange controls meant that capital could be moved across national borders to purchase new plant and materials, hire a new workforce, or acquire a competitor. Both aspects of globalization did more what makes adjustment to the prevailing economic system; they introduced major structural changes and they were made possible by a third factor, the development of information technologies.

Mittelman (2000) comments that with new technologies, especially space-shrinking systems of transport and communication the sites of manufacturing are increasingly independent of geographical distance. Now, capital does not only search for fresh markets, but also seeks to incorporate new groups into the labor force.

Robertson (1992) identifies five phases of the globalization:

1) **the seminal phase in the 1400-1750 period in Europe,** the moment of the apparition of the first maps of the planet as a result of new geographical discoveries, when the humanity became aware that they live on a planet which is not situated in the center of our solar system, period when the universal calendar was adopted and it started to shape the borders of the future colonial powers;
2) **the incipient phase also in Europe in the 1750-1875 period,** when appeared the nation - state, it developed the formal diplomacy between the states, appeared the first international legal conventions and appeared the first ideas about internationalization and universality;
3) **the take-off phase in 1875-1925 period,** when it started to talk about international societies, an unique humanity, the amplification of the commercial bounds took place among independent nations, the communions were expanding and started the mass migration from Europe to America;
4) **the phase of the disputes for the world hegemony in 1925-1969 period** which was launched by the First World War, continued by the Second World War and which will be temperate by the founding of the League of Nations and later the United Nations (UN). UN is the international body whom introduced the concepts of

war crime and crimes against humanity and through the agency of its specialized bodies draw the attention on the dangers that proceed from the ignorance of the global problems like: pollution, demographic explosion, the exhaustion of the natural resources, economical underdevelopment, malnutrition etc.;

5) **the last decades of the XX century, starting with the year 1989,** when significant progresses had place in exploiting the cosmic space, telecommunications, IT, different form was appearing in regional integration against unprecedented deepness of the international division of work.

Therefore, starting with the year 1989 we are in a new age of globalization, talking more and more about the renouncement of the territorial limits, unlimited ascension of technology, free circulation of information and goods, free circulation of capital and human being, economy unification and, finally about the politic alignment regarding global government (Robertson 1992 in Lupan, Prelipcean, 2009).

Many people in rich countries believe that globalization has been bad for the poor in developing countries and has worsened inequality. The answer to this question consists essentially of two parts: first, that neither the theory nor the empirical evidence on globalization and poverty is unarguably positive; second, and more important that people's interpretation of the available evidence is strongly influenced by their values and their beliefs about the process of globalization.

Aisbett (2007) summarizes two different approaches to globalization criticism in the table 1.1

Table 1.1 Summary of Remaining Disagreements

Strong Globalizers	Cautious Globalizers
– Globalization is good for the poor.	– Globalization is bad for the poor.
– Inequality should not be a concern as long as poverty is decreasing. Relative inequality is the appro- of priate measure of inequality.	– Absolute inequality should be aconcern in its own right, regardless poverty outcomes.
– The proportion of the population living in poverty is the appropriate measure of poverty outcomes.	– The absolute number of people living in poverty matters more than the proportion.
– Current income-based measures are sufficient for answering most questions regarding the benefits of globalization.	– Poverty measures should include empowerment and vulnerability.
– More liberal trade is always better.	– Total trade liberalization may not be the best means of promoting trade in the longer term, and even if it is, it may come at too great a cost in terms of social and environmental policies. Totally free trade is unlikely to be the optimal policy, and the optimal policy mix will be case specific.
– It is optimal for developing countries to unilaterally liberalize their economies.	– Developing countries should refuse to further liberalize their economies until the major economic powers genuinely improve access for developing-country exports.

– The way in which growth is achieved makes little difference to distributional outcomes; therefore governments should employ policies that focus on maximizing growth.	– Maximizing short-term growth is not necessarily the way to produce sustainable reductions in poverty.
– Governments should place minimal controls on FDI in order to attractas much as possible.	– Governments should place controls on FDI in order to maximize thewelfare gain to the host country.
– Policies that improve the profitability of large foreign corporations should be undertaken, because these corporations provide jobs for unskilled workers and bring in new technology.	– Policies that improve the profitability of large foreign corporations should not be undertaken, because the poor and the environment in evitably pay for the extra profits gained.
– Although the provision of safety nets is important, lack of safety nets should not be used as a reason for delaying liberalization.	– Liberalization should not proceed until adequate safety nets are in place.
– Government provision of essential services such as health, education,water, and power is inefficient and/or corrupt; therefore these activities should be privatized. This can be done without negative effects on the poor by provision of subsidies or vouchers.	– Government provision of essential services is the only means of ensuring that all the poor have access to them at a reasonable standard. Privatization will have severe negative consequences for the poor.
– Opening economies to foreign trade and investment improves competitiveness and eliminates inefficiencies caused by national monopoly power.	– Opening economies to foreign trade and investment eliminates smaller local firms and further extends the oligopolistic power of the transnational corporations.
– Large reductions in wages in previously protected sectors are merely evidence that these sectors were earning monopoly rents that they were sharing with their workers.	– Large reductions in wages in previ ously protected sectors send many previously middle-class people to ward poverty. It is evidence of the shift toward corporations in relative bargaining power that accompanies opening.
– Opening reduces the potential for capture of economic and political power by local elites.	– The evidence is that integration with world markets is associated with relative increases in the incomes of the very rich. This makes it difficult to believe that their economic and political power has shifted toward the lower income brackets. If anything, local elites must now share their power with international elites.
– Political reform is necessary in many developing countries; liberalization will provide a catalyst for reform.	– The effect on the political equilib rium will be case specific, and it is highly possible that liberalization will have detrimental effects.
– It is appropriate to have enforceable supernational trade and investment agreements. They will ultimately lead to an optimal outcome.	– Nation states should not relinquish power to international bodies,since democracy does not function at such a high level. Or Economically oriented international bodies such as the WTO need to be balanced by equally powerful international organizations whose primary concerns are social and environmental.

Sources: Aisbett (2007)

Michael J. Trebilcock (2005) who is criticising the reviewers of economic globalization says: "The full efficiency and equity potential of globalization will not be realized until we embrace the so-called 'Fourth Freedom' as strongly as we have embraced the first three freedoms (international movement of goods, services, and capital). The anti-globalists might more constructively re-direct their energies to this politically challenging objective."

1.3 Influence of globalizations on business

Global capital, production and trade

According to Blowfield and Murray (2011) the most important outcome of globalization for business has been the enormous increases in international trade and investment. In the last half of the twentieth century, the value of world trade soared from $57 billion to $6 trillion. This has gone hand in glove with the liberalization of financial transactions, whereby a combination of technological advances and policies to remove credit controls, deregulate interest rates, and privatize banking has created much greater investment opportunities. Today, global business-to-business transactions have been worth about $6 trillion and the world´s financial markets have become more like network in cyberspace that can relay billions of trans almoust instantaneously.

Speculative investment has increased due to the ease of conducting fast, low-cost transactions. Global investment has also led to industry state-owned companies. Indeed, globalization challenges the very idea of an American or European company given how shares are owned around the world. Some skeptics say what is viewed as an unhealthy growth in corporate power and alarm at facts such as that a third of world trade occurs between multinational corporations or that five companies control the global market for consumer durables. It has also provoked fears about security, the global power balance, and other national imperatives.

The changing nature of governance and enforcement

Mention of the different, more often lenient, regulatory regimes enjoyed by companies in EPZs is an example of how globalization is connected to changes in how society is governed. In part, this is because liberal globalization depends on the slew of policy changes. At the same time, deterritorialization creates a new space that cannot be readily governed by existing governance structures, such as national governments, or even the international mechanisms housed within the United Nations. For example, a national government can legislate on toxic emissions, but once those emissions affect the global commons, a multinational solution is required.

There are few long-established institutions with an international regulatory mandate – notably the International Labor Organization (ILO), national laws applying to actions overseas (US Alien Tort Claims Act 1789).

Creating the World Trade Organization in 1995 was one of the most important steps in creating a new model of international governance. Part international negotiating forum, part court of arbitration, it has the power to affect trade rules and resolve disputes, and its role is to focus on trade. Globalization skeptics point out that while globalization raises issues about social and environmental justice, the one major international body to come out of globalization so far is an organization that focused entirely on liberalizing trade. But the WTO´s defenders argue that it is not and should not be a world court and point, for example, to the International Labor Organization as the competent body for addressing labor right issues. (Jones & Pollit, 2004 in Blowfield and Murray, 2011).

1.3.1 Sport as the most globalized legitimate business in the world

Walter LaFeber, the political historian, once said the most globalized business in the world and the most lucrative is the drug trade, but for legitimate businesses, sports is probably number 1.

The fans want to see the best and they use the global standards to determine what the best is. The development of the satellite television enables them to watch live events from almost anywhere in the world. This exposure helped a bigger fan base, which, in turn, enabled sporting groups to earn more income, especially through advertising. At the same time, players have declining allegiance to their home-town or home-country fans; rather they are willing to go wherever they can earn the most, presuming that their teams are willing to trade them or release them from their contracts and their governments permit them to work abroad. In every sport, we find top players on the rosters of teams outside their home countries, such as the British soccer star David Beckham with Los Angeles Galaxy, USA (before playing for Real Madrid, Spain); Czech Ice-hockey player Jaromír Jágr with Dallas, USA (before playing for Avangard Omsk, Russia; Philadelphia, USA).

Given the growing global audience for professional sports, top players and teams have effectively become global brands. Athletes such as Tiger Woods in golf, Venus and Serena Williams in tennis etc. not only do companies such as Nike, Reebok and Adidas pay them to endorse sportswear and equipment, nonsports companies pay them to endorse their products (McDonalds, Avon etc.) (Radebaugh, Daniels, Sullivan, 2007).

1.4 Causes of Globalization

Globalization is a complex phenomenon with complex impacts. As you may have noticed, the definitions stated above vary greatly. From one point of it is perceived as a force that brings about economic prosperity to people throughout the world. From another, it is blamed for many contemporary ills. Regardless of the differences in perception of globalization, it is widely accepted that its key characteristics are the liberalization of international trade, the expansion of foreign direct investments as well as the emergence of massive international financial flows. This resulted in increased global competition.

Two underlying factors play the major role here: reduction of national barriers to international economic transactions and the impact of new technology, mainly when it comes to information and communication. Technological development has been crucial for globalization.

Information, goods and capital are also cheaper and able to move across the globe faster. It is difficult to ignore globalisation. Just have a look at the tags on your clothing. Where did you buy the item? Where was it made? How did it get there?

Examples of globalisation are the US fruit imports from Brazil; The American Company NIKE manufactures their trainers in Indonesia. When you call the DELL call centre, you will speak to someone in India; Hollywood movies are pirated and sold for cents in China, car parts are manufactured in many different countries, including Korea, Germany and China, and then these are then in the US.

1.4.1 Firm´s activities vs. globalization

Impacts of globalization on different economic sectors, enterprises, workers and social groups vary significantly. From the economic point of view, globalization has uneven impact across countries. The rise of China and India is a great illustration of the uneven distribution of the benefits of globalization. The industrial countries have also benefited substantially from increasing globalization of the world economy. This is because of their strong initial economic base, capital and skill as well as technological leadership. The other group that have benefited greatly was also the minority of developing countries by increasing exports and increase of foreign direct investments. Reasons for this are that these countries had relatively good initial levels of industrialization, human resource development, infrastructure, and economic and social institutions. On the contrary, some undeveloped African countries have not benefited from globalization and remain handicapped by poverty and illiteracy with some of these countries still largely dependent on a single commodity.

Globalisation is the process by which people, their ideas and their activities in different parts of the world become interconnected or integrated. The main idea of globalisation is interconnectedness.
The impacts of globalisation are: economic, social and environmental.

1.4.1.1 Economic impact of globalisation:

- Improvements in standard of living Countries earn more money as they trade and invest in each other. Such money is then used by the government for development (e.g. education, health, housing etc.). People who live in these countries can therefore enjoy the benefits and their standard of living increases. People also have a broader variety of choices in terms of the products which they buy.
- Increased competition among nations - investment and market, talent. More intense competition is something that countries have to face in order to attract Transnational Corporations (TNCs) to invest in their country e.g. China, Singapore. Many developing countries find it difficult to attract foreign investments due to their poorly developed infrastructure or political instability.

Such countries often remain poor. Countries also strive to attract talented people to work in their country e.g. India, highly skilled people migrating to other countries – brain drain.

- Widening income gap between the rich and the poor Developed countries draw away TNCs, investments, skilled people and resources away from poor areas. Because the developing countries are unable to produce better quality goods and higher priced goods, they also face trade restrictions from the developed countries. The gap between the rich and the poor grows bigger and this can lead to international tension.
- Globalisation has both positive and negative impacts. Increased incomes mean that many people experienced an improvement in their standards of living. However, there are also many people who do not get to enjoy the positive impacts of globalisation.

1.4.1.2 Social impact of globalisation:

- The loss of local culture occurs, especially when TNCs, or global brands such as Starbucks and McDonalds dominate the consumer market in developing countries. This results in a homogenous culture across the world. The spreading of different foreign cultures across other countries is perceived as uncomfortable when foreign cultures affect their youths and they lose interest in the local culture. Some people may see these foreign cultures as being forced into them e.g. pop culture (rap music, MTV, Hollywood).
- Increased awareness of foreign culture. However, through globalisation, people can become more aware of different cultures by travelling or browsing the Internet. This enables people to become more understanding and tolerant to other countries as well as helps to reduce misunderstanding among countries.

1.4.1.3 Environmental impact of globalisation

Globalisation can have a destructive impact in regard to the natural environment. Transnational Corporations use natural resources at a rapid rate and are profit-oriented with disregard to environmental protection. Some of the environmental impacts include deforestation and related problems, global warming, environmental management.

- **Deforestation** means that trees are being cut down rapidly in forests and jungles. Rainforests in many countries have been cut down in order to facilitate the development of industries, agriculture, housing and transportation as well as to make money for the country e.g. Brazil, Indonesia. This deforestation has caused many environmental problems such as soil erosion, extinction of flora and fauna, increase in flooding and haze (forests being burned down).
- **Global warming.** Globalisation also causes global warming. Mainly by the transportation of goods – aeroplanes and ships produce large quantities of greenhouse gases, factories – produce large quantities of greenhouse gases. As a result of the production of these gasses, the average global temperature has increased.

- **Environmental management.** Globalisation also brought about an increase in awareness of environment development - sustainable development. Sustainable development means that development meets the present needs without affecting the ability of further generations to meet their needs. When the environment is well preserved, the use the resources can be continued by the future generations and enjoy a high standard of living as well. Possible alternative energy sources are wind, solar and geothermal power. The main challenge is to convince countries to find such alternative sources and find ways to generate power using those sources.

1.4.2 Positive Aspects of Globalization

- Worldwide production markets have emerged which resulted in broader access to arrange of foreign products for consumer and companies.
- Emerged financial markets resulted in better access to external financing for borrowers.
- The interconnectedness of these markets, however, means that economic collapse in any one given country could not be contained.
- Ability of governments to work better together towards common goals has increased since there is an advantage in cooperation, an improved ability to interact and coordinate, and a global awareness of issues.
- Improved access to foreign culture in the form of movies, music, food, clothing, and more. To put it short, the world has more choices.
- Geographically remote locations improved the information flow between them.

1.4.3 Negative Aspects of Globalization

- Outsourcing, even though it provides jobs to population in one country, it takes away the very same jobs from another country, leaving many people without opportunities.
- Even though the ability of different cultures from around the world has improved, they begin to blend in together which results in faded individualities.
- Improved chances of disease spreading across the globe including the threat of invasive species that could prove devastating in non-native ecosystems.
- The decrease of international regulation could have adverse consequences for the safety of people and the environment.
- Large organizations driven by the West such as the International Monetary Fund and the World Bank make it easy for developing countries to obtain loans. However, the Western-focus is often applied to non-Western situations resulting in failed progress.

1.4.4 Anti-Americanism

Another phenomenon that has arisen in connection with the globalisation is anti-Americanism. What needs to be stated at the very beginning is that anti-americanism is not a coherent belief system or ideology. Anti-Americanism should be perceived as series of criticism and prejudices towards America which have been labelled anti-Americanism. America as a global superpower faces political as well as economical criticism, and there are many types of anti-Americanism as each nation has its own story to tell when it comes to this subject. The most focus herein will be at the most dominant and most notable types of such criticism which is related to the globalisation. Anti-Americanism in its form today is generally perceived as a dominant component of anti-globalisation. The anti-americanism as we know it today has started on September 11th 2011. However, the roots of anti-Americanism are dated in the late eighteenth and early nineteenth century as the United States became more than a colonial or religious outpost. The earliest form of anti-americanism aimed its criticism at the lack of taste, grace and civility in American habits and thus everyday American life. As depicted by some European writers, for example by Charles Dickens, Americans were rude and indifferent to manners or polite conversation. Other European intellectuals of the nineteenth century stressed mostly the backwardness and uncouthness which were more over combined with what they regarded as cocksure arrogance. Americans were therefore seen as overconfident and self-important and it was the egocentricity that aggravated and infuriated the culturally developed Europeans. Some say not a lot has changed since the old days in regard to how Europeans view their trans-Atlantic cousins. The American criticism progressively continued during the twentieth century. By winning the Cold War, America did not achieve a global support. Instead of that, disagreements have arisen between the former NATO allies and the 2003 Iraq conflict is perhaps the most obvious example. The end of the Cold World started what was dubbed as the age of globalisation and this era continues today. This period is also frequently associated with the already mentioned anti-globalisation movement and with the world fearing being dominated by the capitalists of the United States as well as by the American culture. Other concerns of the anti-globalisation movement are those of the American influence on the International Monetary Fund as well as the World Bank. The anti-globalisation movement also claims America to be the most responsible for the world poverty, environmental degradation, and global conflict, explains Šaturová (2012).

1.4.5 Anti-American terrorism

The criticism of America in the post-Cold War period as well as the attacks of 9/11 has caused mixed responses from the rest of the World which was a great surprise to many Americans. These bloody 9/11 attacks have made the anti-Americanism much more serious subject compare to the grievances regarding the manners and culture of the earlier era. September 11th 2001 undoubtedly means a new phase of anti-Americanism. However, the concerns of the previous phases have carried on. The staring points of violent anti-

Americanism can be traced back to earlier events where Americans were either attacked or killed, such as the murders of Americans in Beirut in 1970s onwards, Iranian hostage crisis of 1979-1980, the detonation of a van bomb in the World Trade Center of 1993, car bomb attacks on the American embassies in Kenya or the suicide bombings that took place in Yemen in year 2000. The attacks of September 11th 2001 are regarded as the most significant anti-American acts. The attacks on the Pentagon and the World Trade Center, the terrorists attacked two famous American symbols and by doing so also killed civilians who were mainly American citizens.

1.4.6 Economic Impacts of Anti-Americanism on American Business

The five main impacts of anti-Americanism on American economic interests are:

1) **Increased emphasis on security:** American businesses have increased their security costs due to the anti-Americanistic attacks.
2) **Boycotts of American products:** boycotts of American goods have negative impact on sales as well as prevent global expansion caused by the growth of corporations in the era of globalization.
3) **Erosion of the power of American brands:** anti-Americanism promotes distrust in American business and causes global customers to turn away from American products.
4) **Strengthened foreign opposition to American policies on international trade:** strong public demonstrations of anti-Americanism may strengthen postures of foreign governments during negotiations concerning international trade.
5) **Obstructed access to the best and brightest:** decrease in the applications of foreign students to American programs; student visas are harder to get.

1.5 The business network as one result of globalization

The network approach to theorizing about the foreign activities of multinational companies (MNEs) owes its origin to a group of Swedish and Japanese scholars. The basic proposition of these scholars is that in order to survive, organizations require resources that can be obtained only by interacting with other organizations that own or control these resources. A network relationship implies that there is some overlap in the transactions of firms within the network according to Dunning (1993).

Relationships and networks are of great importance in the process of internationalization. It is important to combine the theoretical approach and the business setting to increase our understanding of how firms become internationally and develop their operations, and how we can deduce simplifications of internationalisation mechanism. How does a firm in the business network internationalize? From this viewpoint the businesses have the competitive environment which is created by partnership and business networks among small, medium sized and great companies. The process, in connection with the tendency, is to create the strategic alliances, fusions & mergers, international joint ventures, etc. Business networks are built around some market opportunity or they are formed together with other business actors.

Based on the information above, Ebin (1998) explains that the era of multinational corporations, extending its hegemony throughout the world, has given way to the era of joint ventures and strategic alliances. It is no longer possible or wise for even the largest corporations to expand internationally by the sole strategy of planting wholly – owned subsidiaries around the globe. Cross-border cooperation between companies is, of course, not a new idea. International Joint Ventures (IJVs) have a long history and have assumed several well-defined forms. A preliminary distinction can be made between those alliances that involve the creation of a separate entity through which the business of the controlling parties will be transacted, and those that are organized as purely contractual arrangements between ventures. The term strategic alliance broadly refers to a wide assortment of arrangements for intercorporate cooperation, including the types of joint ventures described above. It may consist of contractual agreements for technology licensing or cross – licensing, distribution, research and development, and favored supplier and cooperative marketing programs. The terms of the strategic alliances are driven by the objectives and needs of the participants. From the viewpoint of the net´s division in the EU countries, mainly in Germany, France and in the selected Scandinavian countries, we can use the following classification of business networks i.e. multiple alliances, alliance portfolio and alliance web.

We can find further identification of alliances in the literature i.e.: multilateral alliances, coalitions, constellation, consortia, team nets, webs, and business network.

The decision to create an international joint ventures or strategic alliance arises out of the recognition that the strengths of one party can complement the weaknesses of the other. When a foreign manufacturer seeks to introduce its products into a local market, the alliance offers benefits including the use of an existing distribution system, guidance in adapting the goods to local customer demands, and a broader product line for the local distributor. When the participants intend to develop and exploit technology created by one of them, or complementary technologies created by each, the benefits of an alliance include access to financing and manufacturing capacity for the smaller partner, faster development time through joint research, and flexibility in meeting changing market demands. Both, strategic alliances and joint ventures are especially attractive to high – technology firms and their customers and suppliers. The opportunity to obtain necessary capital and manufacturing capacity draws firms that have few assets other than their intellectual property.

The concept of a network emphasizes that organizations are reservoirs of human capabilities in dynamic circumstances. Within the network environment, decisions are made and activities occur through an interactive association of the people involved. The organization has a structure which defines the entity. It is defined according to the dynamic relational networks among many subsystems. An optimal network includes dynamic relationships throughout a company´s value chain, and these may be effected not only through the company´s own systems or subsidiaries but also through strategic alliances that bring together coordinators and downstream marketing activities. With many different goods or services positioned in many international markets, the optimal network defines a singular line of vertical coordination. In that sense, central management directs strategies, controls major resource allocations, and defines company – wide objectives. Regional and local managers retain responsibility for their differentiated networks. In effect, the network structure is defined by reciprocal relationships and shared responsibilities for contributing to the company´s major strategic goals. Joining business network can mean a distinctive element for companies that develop a rapid internationalization process. By Elo (2005), the way of international operations and activities are carried out in issue for each firm in today´s business society, not just for exporters, importers or multinational firms. Imports and exports have become everyday business for many firms that have not really invested in international strategy building, still they have become a part of an international business network explains Törnroos (2002). Embeddedness within a business environment and within business networks, as well as different forms of cooperation have a great impact on the development of internationally – oriented companies. The impact of embeddedness and interconnectedness reduces the autonomy of a firm and creates problems of different nature for the firms. He defined that the nets of actors (such as joint ventures and strategic alliances) share a kind of cohesive, collective element that binds them together.

1.5.1 A partnership vs. business networks

According to Forström (2005) a partnership we see as a high – involvement relationship characterized by something referred to as "closeness". Closeness should be regarded as degrees of integration and go futher into proposing involvement as a relevant concept when discussing partnerships. She concludes that involvement has three dimensions: coordination and activities, adaptations of resources, and interaction among individuals. In summary, a partnership should be characterized by involvement along the lines of activities, resources and individuals. A partnership is one relationship management strategy – a strategy among others – with the ultimate aim of doing profitable business. The logic of partnership is that working together, cooperating, being interdependent and creating and exploiting interdependencies with a business partner and it means to do profitable business in the long run.

A business network, explains Elo (2005), is a set of two or more connected business relationships. Two connected relationships of interest themselves can be both directly and indirectly connected with other relationships that have some bearing of them, as part of a larger business network. There are three essential elements of business networks – activities, resources and actors. In total, the business networks represent area of networking. The complex nature of business networks makes it difficult to classify and compare them.

There are differing viewpoints on the different types of networks:

- industrial networks – consist of relationships. From the viewpoint of theory, the relationships are also called dyads – the existence of the secondary functions means that they are also parts of networks.
- social networks
- networks – can be seen as market, groupings of firms or organizations
- networks – can be of a diffuse character, representing new forms of organization
- networks – can be categorized as :
    a) vertical networks are co – operative relationships between suppliers, producers and buyers aiming to the solution of marketing problems, improved production efficiency or exploitation of market opportunities. Subcontracting relationships are also considered as networks.
    b) horizontal networks – often include co-operation among competitors, they may be partially competitive and partially co – operative i.e. co – opetitive networks. Ghauri et al. (2003) define horizontal network as co – operative network relationships among manufacturers that want to solve a common marketing problem, improve production efficiency or exploit a market opportunity through resource mobilization and sharing. Export grouping nets are a good example of such networks.
- networks – are of an increasingly non – domestic character. They overcome borders and regions.
- cross cultural business networks

According to Vodáček and Vodáčková (2004) and Ubrežiová (2006), the development of networks was very speedy. The business chains from the standpoint of this study have own hinterland and support in the managerial accesses including:

- "just in time" – JIT
- "total quality management" – TQM
- "supply chain management" – SCM
- "customer relationships management" – CRM
- "business process reengineering" – BPR

In accordance with other authors we argue that the networks have "common ground" and "core firm".

Position in a business net is defined by the characteristics of the company´s relationships and the benefits and commitments that arise from them.

Network effect is an impact, including effects in the relationships, effects on the relationships, effects on a portfolio and effects on a network.

Interconnectedness in business context emphasizes that each firm is dependent on resources controlled by other firms.

Autonomy – A legally independent firm in a business network is influenced by the interconnectedness and embeddedness which may reduce its autonomy.

Interdependency influences the activities and decision making of industrial firms where business network has a broader meaning as a configuration of actors.

By Kjellmann et al. (2004) theoretically and practically, the analysis of business network will be submitted by network horizon, network context, and network identity.

- network horizon explains how extended an actor´s view of the network is. Factors influencing the view are expierence, structural features, and connectedness.
- network context determinates the actors who they are and how they related to each other; the activities, what activities are performed and the ways in which they are linked together; and the resources, what resources are used and the pattern of adaptation between them.
- network identity refers to how the firms see themselves in the network and how they are seen by the other actors.
- another aspect in analysis is the network role of an actor. Defined roles are the architect, the lead operator, and the caretaker.

A lot of researches have been done concerning the networks of large corporations, multinational companies and alliances. The creation, development and entrepreneurial environment introduce the process of globalization of market and production with regard to the both, the EU countries and the world. Technically, it is affected by development of information and communication technologies. The theory deals with process of the establishment and development of the supplier – customer relationship overtime according to the variables of experience, uncertainty, distance (including aspects of social, geographical, cultural, technical and temporal distance), commitment and adaptations. Partnerships in industrial networks are strategic choices to organize a mutually beneficial relationship.

The internationalisation process as a part of a wider business network provides not only the related context, but also additional cultural dimensions to be understood. There are numerous aspects – social, cultural, emotional, temporal and other tacit dimensions that influence the firms´s development in the network. According to Ubrežiová et al (2005), Francesco and Gold (1998) culture can explain that in general terms, culture is a way of life of a group of people. Researchers from diverse fields, including anthropology, sociology and management have studied culture for a long time. In connection with business networks, the sources of culture have been divided into the following categories: language, nationality, education, profession, ethnic group, religion, family, sex, social class, and corporate or organizational culture.

The increasing interdependence of the global economy is heightening the need to understand how business relationships develop among company managers from different cultures. Pichanič (2005) and Ubrežiová, A. - Ubrežiová, I. - Horská, E. (2012) agree that it is a part of the international human resources. Törnroos (2002), Elo (2005) argue that culture is embedded in different types of cultural settings and contexts. Key areas of interest for business networks are how to negotiate, manage organizations, market products and services and how to adequately perceive the influential network connections and handle business relationships.

Questions for Discussion

1. In accordance to the theory of international management and entrepreneurship, can you discuss about characteristics of international management and entrepreneurship? What is meant by this term? How can we divide the countries where the multinational company operates?
2. Explain the term internationalization and globalization. What are the main factors which effected internationalization and globalization processes?
3. How do you see the future of the world business in the terms of globalization?
4. What are the main advantages and disadvantages of globalization?
5. Have you ever met "globalization" in your life? In which situation?

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CHAPTER II

The Political, Legal and Technological Environment

Learning objectives:

- to explain how domestic laws affect the ability of firms to conduct international business
- to describe the major types of legal systems
- to describe the impact of the host country´s technological enviroment
- to explain how firms can protect themselves from political risk

Introduction

International managers face intensive and constant challenges that require training and understanding of the foreign enviroment. Managing a business in a foreign country requires managers to deal with a large variety of cultural and environmental differences. As a result, international managers must continually monitor the political, legal and technological environments.

A manager´s environment is made up of constantly changing factors – both external and internal that affects the operation of the organization. If a new competitor appears in the marketplace, the managerial environmment is affected. If key clients take their business elsewhere, managers feel the impact. And if technological advances date organization´s current methods of doing business, once again the managerial environments, they need to be aware of any changes that occur because changes ultimately affect their daily decisions and actions.

There are various acronyms in which the organization finds itself. In international management and entrepreneurship, experts generally talk about six types of environments in which the enterprises carry on its business – geographic, economic, competitive, socio – cultural, political (legal) and technological. From this viewpoint of textbook we have dealt with political, legal and technological environment.

2. Political Environment

The domestic and international political enviroment has a major impact on MNCs. As goverment policies change, MNCs must adjust their strategies and practices to accommodate the new perspectives and actual requirements. Moreover, in growing number of geographic regions and countries, goverments appear to be less stable; therefore, these areas carry more risk than they have in the past. An important part of any business decision is assessing the political environment in which a firm operates. Laws and regulations passed by any level of government can affect the price a firm must pay for labor, zoning regulations affect the way it can use its property, and governmental protection laws affect the production technology it can be used as well as the costs of disposing of weste materials. Adverse changes in tax laws can slowly destroy a firm profitability. Civil wars, assassinations, or kidnappings of foreign businesspeople and expropriation of a firm´s property are equally dangerous to the viability of firm´s foreign operations.

2.1 Political Risk

Most firms are comfortable assessing the political climates in their home countries. However, assessing the political climate in the other countries is far more problematic. Experienced international business engage in political risk assessment, a systematic analysis of the **political risks** they face in foreign countries. Political risks are any changes in the political environment that may adversely affect the value of firm´s business activities. Most political risks can be divided into three categories:

- **ownership risk,** in which the property of a firm is threatened through confiscation or expropriation,
- **operating risk,** in which the ongoing operations of a firm and/or the safety of its employees are threated through changes in laws, environmental standards, tax codes, terrorism, armed insurrection, and so forth,
- **transfer risk,** in which the government interferes with a firm´s ability to shift funds into and out of the country.

Political risk may affect all firms equally or focus on only a handful. **A macropolitical risk** affects all firms in a country; examples are civil wars that tore apart Sierra Leone, Zaire, and Rwanda in the 1990s or recent conflicts in Afghanistan, Iraq, and Liberia. **A micropolitical risk** affects only a specific firm or firms within a specific industry. Saudi Arabia´s nationalization of its oil industry in the 1970s is an example of a governmentally imposed micropolitical risk, as is the Venezuelan goverment´s recently annouced requirements that foreign oil companies renegotiate thier contracts with government. Non-governmental micropolitical risks are also important. Disneyland Paris and McDonal´s have been target of numerous symbolic protests by French farmers who view them as a convenient target for venting their unhappiness with U.S. international agricultural policies.

Table 2.1 Examples of political risk

Type	Impact on firms
Expropriation	– loss of future profits
Confiscation	– loss of assets, loss of future profits
– campaigns against foreign goods	– loss of sales, increased costs of public relations efforts to improve public image
– manadatory labor benefits legislation	– increased operating costs
– kidnapping, terrorist threats, and other forms of violence	– disrupted prodduction, increased security costs, increased managerial costs, lower productivity
– civil wars	– destruction of property, lost sales, disruption of production, lower productivity
Inflation	– higher operating costs
Repatriation	– inability to transfer funds freely
– currency devaluations	– reduced value of repariated earnings
– increased taxation	– lower after - tax profits

Source: Griffin, W.R. – Pustay, W.M. (2007): International business – a managerial perspective. New Jersey: Pearson Education, Inc., Upper Saddle River, 2007, p.71

2.2 Legal Environment

One reason why there are so many diffrent laws and regulations is that today´s international environment is so confusing and challenging for MNCs. According to Hodgetts - Luthans (2000), there are four fundations on which laws are based around the world:

1. **Islamic law.** This is law derived from interpretation of the Qur´an and the teachings of the Prophet Mohammed. It is found in most Islamic countries in the Middle East and Central Europe.
2. **Socialist law.** This law comes from the Marxist socialist system and continues to influence regalations in former communist countries, especially those from the former Soviet Union as well as present day China, Vietnam, North Korea, and Cuba.
3. **Common law.** This comes from English law, and it is the foundation of the legal system in the United States, Canada, England, Australia, New Zealand, and others,
4. **Civil or code law.** This is derived from Roman law and is found in the non-Islamic and non-socialist countries such as France, some countries in Latin America, and even Louisiana in the United States.

2.2.1 Basic Principles of International Law

When compared with domestic law, international law is less coherent because its sources embody not only the laws of individual countries concerned with any dispute but also treaties (universal, multilateral, or bilateral) and convections (such as Geneva Convection on Human Rights or the Vienna Convention of Diplomatic Security). In addition, international law contains unwritten understandings that arise from repeated interactions among nations. Conforming to all the different rules and regulations can create a major problem for MNCs. Fortunately, much of what they need to know can be subsumed under several broad and related principles that govern the conduct of international law.

Sovereignty and Sovereign Immunity. The principle of sovereignty holds that governments have the right to rule themselves as they see fit. In turn, this implies that one country's court system cannot be used to rectify injustices or impose penalties on another unless that country agrees. So, while U.S. laws require equality in the workplace for all employees, U.S. citizens who take a job in Japan cannot sue their Japanese employer under the provisions of U.S. law for the failure to provide equal opportunity for them.

International Jurisdiction. International law provides for three types of jurisdictional principles. The first is the nationality principle, which holds that every country has juridisction over its citizens no matter where they are located. The second is the **territoriality principle,** which holds that every nation has the right of jurisdiction within its legal territory. Therefore, a German firm that sells a defective product in England can be sued under English law even though the company headquartered outside of England. The third is **protective principle,** which holds that every country has jurisdiction over behavior that adversely affects its national security, even if the conduct occured outside the country. Therefore, a French firm that sells secret U.S. government blueprints for a satellite system can be subjected to U.S. laws.

Doctrine of Comity. The doctrine of comity holds that there must be mutual respect for the laws, institutions, and government of other countries in the matter of jurisdiction over their own citizens. Although this doctrine is not part of international law, it is part of international custom and tradition.

Act of State Doctrine. Under the act of state docrine, all acts of other governmnets are considred to be valid by U.S. courts, even if such acts are inappropriate in the United States. As a result, for example, foreign governments have the right to set limits on the repatriation of MNC profits and to forbid companies from sending more than this amount out of the country.

Treatment and Rights of Aliens. Countries have the legal right to refuse admission of foreign citizens and to impose special restrictions on their conduct, right of travel, where they can stay, and what business they may conduct. Nations also can deport aliens.

Forum for Hearing and Settling Disputes. This is a principle of U.S. justice as it apllies to international law. At their discretion, U.S. courts can dismiss cases brought before them by foreigners; however, they are bound to examine issues such as where the plaintiffs are located, where the evidence must be gathered, and where property to be used in restitution is located.

2.2.2 Laws Directly Affecting International Business Transactions

Other national laws are explicitly designed to regulate international business activities. Such laws are often politically motivated and designed to promote the country´s foreign policy or military objectives. A country may attempt to induce a second country to change an undesirable policy by imposing **sanctions** - restraints against commerce with that country. Sanctions may take many forms, such as:

- restricting access to high technology goods,
- withdrawing prefeerential tariff treatment,
- boycotting the country´s goods,
- denying new loans.

An embargo - a comprehensive sanction against all commerce with a given country - may be imposed by countries acting in unison or alone. For example, the United Nations embargoed all trade with Iraq´s 1990 invasion in Kuwait. Most countries embargoed goods to or from South Africa during the 1980s to protest its apartheid policy.

A particularly important form of sanction is **export controls** on high technology goods. Many technologically advanced countries control the export of so-called dual use products that may be used for both civilian and military purposes. Countries may also attempt to regulate business activities that are conducted outside their borders, a practice known as **extraterritoriality**. For example, firms are vulnerable to U.S. antitrust law suit if they engage in activities outside the United States that dimish competition in the U.S. market. In one such case, the United States successfully sued Pilkington PLC, the British owner of the most important parents for producing flat glass, for limiting the ability of its U.S. licenses to use the technology in international markets. U.S. authorities claimed that Pilkington´s policies hurt U.S. exports and reduced the incentive of U.S. flat glass producers to invest in research and development, thereby lessening competition.

2.2.3 Laws Directed against Foreign Firms

On other occassions countries may pass laws that are explicitly directed against foreign-owned firms. Ownership issues are a particular area of concern. In most countries there is ongoing debate between the political left and right regarding the appropriate balance between governmental control of the economy and reliance on market forces to allocate resources. Often, when leftist governments obtain power, they choose to transfer the ownership or resources from the private to the public sector, a process known as **nationalization**. Much vulnerable to such a crude oil production and mining, and capital – intensive industries such as steel, chemicals, and oil refining. When the host goverment compensates the private owners for their losses, the transfer is called **expropriation**. When the host goverments offers no compensation, the transfer is called **confiscation**. Most governments, including that of the United States, recognize the right of other national governments to mandate the transfer of private property within their borders to the public sector, although non host governments do expect that foreign owners will receive suitable compensation for their lost property. For example, many Arab oil–producing countries nationalized the properties of Western firms a combination of firms 1973. These countries, however, offered the Western firms a combination of compensation, continuing operating agreements, and future drilling rights that the firms found acceptable. Conversely, a key element in the U.S. conflict with Cuba is Cuba´s lack of compensation for assets seized from U.S. firms.

Privatization – is the conversation of state – owned property to privately owned property. Although not strictly an issue of host country control, privatization is the opposite of nationalization and creates opportunities for international businesses. Most – state enterprises sold to the private sector are unprofitable, undercapitalized, and overstaffed. Nevertheless, they are often attractive to international businesses seeking to expand their operations into new markets located in key sectors of a national economy, such as telecommunications, transportation, and manufacturing. Privatization, which gained momentum in the 1980s, stems from two primary forces: political ideology and economic pressure. Political ideology prompted Margaret Thatcher, the prime minister of the United Kingdom from 1979 to 1990, to call diminishing the role of the state in the economy. Privatization has also resulted from competitive pressures that firms face in global markets. The telecommunication industry provides a perfect example of this phenomenon. That industry has benefited from rapid technological change, yet many national governments, facing enormous budgetary pressures and deficits, have found it difficult to raise the capital required to upgrade and expand state – owned telecommunications systems. As a result, countries such as Argentina, Mexico, Chile, and the United Kingdom have privatized telecommunications services.

Constraints on foreign ownership. Many governments limit foreign ownership of domestic firms to avoid having their economies or key industries controlled by foreigners. For example, Mexico restricts foreign ownership in its energy industry, believing that the benefits of its oil reserves, which it views as part of its „national patrimony", should accrue only to its citizens. Foreign firms are often excluded from the radio and television broadcasting industries. The United States limits foreigners to 25 percent ownership of U.S. television and radio stations. Similar rules exist in Europe. Countries can also constrain foreign MNCs by imposing restrictions on their ability to repatriate the profits earned in the host country. Such restrictions were common in the 1980s, but many countries, such Botswana and Ethiopia, abolished their repatriation controls during the 1990s as they adopted more free – market – oriented policies.

Questions for Discussion

1. In what way does the new political environmnet around the world create challenges for MNCs?
2. How do the following legal princeples impact on MNC operations: the principle of sovereignty, the nationality principle, the teritoriality principle, the protective principle, and the principle of comity?

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3. Business Ethics in International Environment – Introduction

Learning objectives:

- to define business ethics
- to explain the importance of ethical code
- to explain the role of business ethics in multinational business
- to introduce the concept of corporate social responsibility and sustainable development

Introduction

The term „Business ethics" becomes more and more popular mostly in the connection with corporate social responsibility (CSR). This chapter focuses on business ethics generally and tries to explain its importance in the international business.

Unfortunately, there are still some people not believing in the combination of these two words. Some people even believe that it is an oxymoron. (Collins, 1994 in Crane, Matten, 2010) Some experts argue that ethics has no place in business. They claim that a firm responsibility is only to make profits for its stockholders and that business is morally neutral. (Mead, Andrews, 2010) It is not surprising that they think this way. Various scandals concerning undesirable business activities such as the pollution of rivers with industrial chemicals, the exploitation of sweatshop workers, the payment bribes to government officials have highlighted the unethical way in which some firms have gone about their business. Some firms use business ethics to improve their image and make them interesting for the customers which more and more prefer to deal with companies that have a strong ethical profile, and these companies can increase their profits. If a company purporting to be ethical is seen to betray its code, the damage may be greater than for a company that had never claimed ethical standards in the first place. One of these examples is the case of Paul Wolfowitz, the one-time US Deputy Defense Secretary who became head of the World Bank in 2005. He proclaimed that his mission included rooting out corruption in the institution. In 2007, he arranged for his girlfriend, a World Bank official, to be promoted from a relatively junior grade to the position of vice-president. Shaha Ali Riza was awarded a massive pay rise which brought her tax-free income up to $244,960 – more than the salary paid to the then Secretary of State, Condoleeza Rice. By authorizing the rice, Wolfowitz was technically guilty of „girl-friend nepotism", a fatal act for a man who claimed to oppose World Bank corruption. Worse, he claimed to have followed the correct ethics producers in making the appointment. But it was later discovered that he had drawn up Riza´s contract personally, and by thus misleading the bank´s executive he sealed his fate. His enemies within the World Bank, in European governments, and elsewhere, used this to force his resignation. (Mead, Andrews, 2010)

On the other hand, there are a lot of REAL "ethical – or responsible firms", like Statoil, Walt Disney Company, Nestlé, etc. (Berger, 2011) They try to do the best for the customers, employees, the environment, communities, stakeholders, and the public sphere. And it has become their business advantage!

3.1 Defining Business ethics

Crane and Matten (2010) define business ethics as "the study of business situation, activities, and decisions where issues of right and wrong are addressed".

The concept of ethics includes two related ideas:

- The conduct of behavior according to moral principles,
- The evaluation of behavior according to moral principles.

In many societies the ethical code is based on the predominant religious system. Elsewhere there may be no obvious religious influence, and instead it is derived from a sense of how people ought to behave which may closely correspond to values in the culture.

Gruble (2011) states that the most widely accepted definition for business ethics says that it is a set of corporate values and codes of principles which may be written or unwritten, by which a company evaluates its actions and business-related decisions.

In common usage, the terms "ethics" and "morality" are often used interchangeably. In fact, morality is concerned with the norms, values, and beliefs embedded in social processes which define right and wrong for an individual or a community. Ethics is concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine right and wrong for a given situation. These rules and principles are called ethical theories. (Crane, Matten, 2010)

To understand what ethics really means Mead and Andrews (2010) show this example: **Supposing that you are doing business with a business partner who offers you a gift on condition that you sign a contract. In other words, the gift is a bribe. This faces you with a range of practical and abstract questions. The practical questions include:**

- Will anyone else – superiors, colleagues, subordinates, other authorities – find out the truth if you take the bribe?
- If the truth is discovered, what punishment might you incur?
- Is the bribe large enough to justify the risk of discovery and punishment?

One more abstract level, you are faced ethical issues:

- Is it right to take this bribe?
- What is the right action that should I take?
- The situation could be more complicated:
- if the bribe takes the form of a restaurant meal;
- if the person offering the bribe is a member of your family;

- if the bribe is offered during a religious festival, when gifts are normally exchanged;
- if non-acceptance will be construed as a serious insult, and mean that your firm will lose the contract. This loss of work will mean that your colleagues lose their jobs;
- your agent offers to accept the bribe on your behalf, and to deduce the proceeds from his expense account. (Mead, Andrews, 2010)

The United States reported that between 1994 and 2001, it learned of instances in which foreign firms from over 50 countries offered bribes to buyers in over 100 countries, and these cases involved over 400 competitions for contracts valued at $200 billion. (Daniels, Radebaugh, Sullivan, 2007) The 2011 Corruption Perceptions Index shows that public frustration is well founded. No region or country in the world is immune to the damages of corruption. The vast majority of the 183 countries and territories assessed score below five on a scale of 0 (highly corrupt) to 10 (very clean.) New Zealand, Denmark and Finland top the list, while North Korea and Somalia are at the bottom. The Czech Republic is on the 57th place with the score 4.4, Slovakia is on the 66th place with the score 4. Figure 3.1 shows the situation in the world. It goes from the yellow color (score 10) to the dark red color (score 0), the gray areas mean the data weren't found. (Transparency International, 2012)

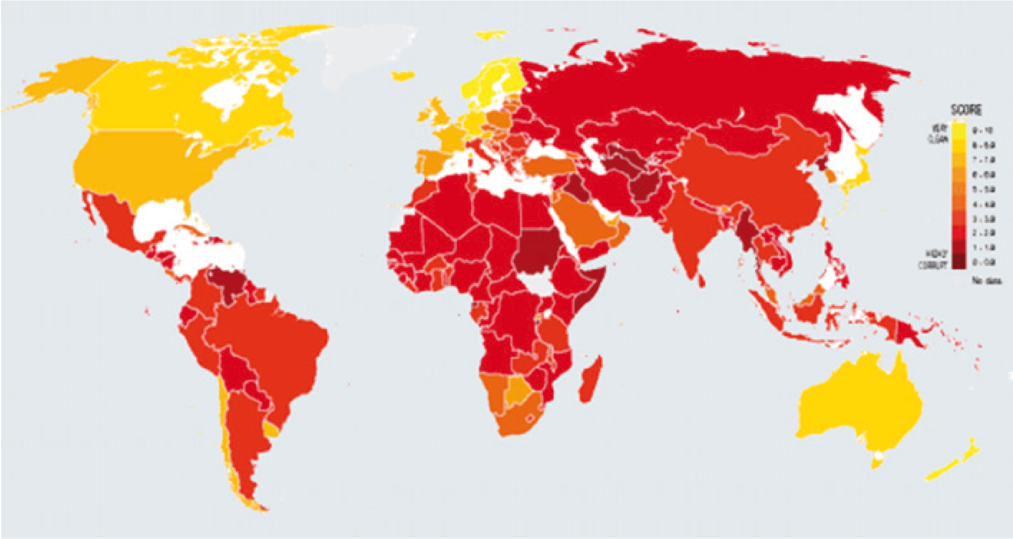

Figure 3.1 Corruption Perceptions Index 2011
(Source: Transparency International, 2012)

The Corruption Perceptions Index ranks countries and territories according to their perceived levels of public sector corruption. It is an aggregate indicator that combines different sources of information about corruption, making it possible to compare countries.

The organization protects its members against such ambiguities by an ethical code to which all members are expected to subscribe. In more collectivist cultures where members can be expected to share the same beliefs, this code may be implicit, and perhaps not even articulated. (Mead, Andrews, 2010)

Business ethics and the law

Surely the law is also about issues of right and wrong. The law is essentially an institutionalization or codification of ethics into specific social rules, regulations, and proscriptions. The law might be said to be a definition of the minimum acceptable standards of behavior. However, many morally contestable issues, whether in business or elsewhere, are not explicitly covered by the law. For example, just as there is no law preventing you from being unfaithful to your girlfriend or boyfriend (although this is perceived by many to be unethical), so there is no law in many countries preventing businesses from testing their products on animals, selling landmines to oppressive regimes, or preventing their employees from joining a union – again, issues which many feel very strongly about.

It is often said that business ethics is about the "grey areas" of business, or where, as Trevino and Nelson (2003) in Crane and Matten (2010) put it, "values are in conflict".

The problem for companies that use a legal basis for ethical behavior is that laws vary among countries. Not common values are common to every culture. In addition, strong home-country governments may try to extend their legal and ethical practices to the foreign subsidiaries of domestically headquartered companies – an action known as extraterritoriality. In some cases, such as with health and safety standards, extraterritoriality should not cause problems. In other cases, such as with restrictions on trade with enemies of home country, extraterritoriality may cause tension between the foreign subsidiary and the host-country government.

In spite of the problems, the law is still a good place to start. (Daniels, Radebaugh, Sullivan, 2007)

3.2 The ethical code (Code of Conduct)

By focusing on behavioral level, the ethical conduct, for example, may be seen as a trainable set of competences. This is reflected in training and educational courses that seek to develop ethical awareness and competences. (Jackson, 2011)

The ethical code makes clear how members of the organization are expected to behave. It might specify that:

- No gifts are to be accepted in any circumstances whether in the country of headquarters or elsewhere;
- Gifts may be accepted up to a specified costs and not above this;
- All gifts offered/or accepted are to be reported to the compliance manager;
- Entertainment may be accepted up to a specified cost and must be reciprocated;

- Gifts or entertainment may be accepted up to a specified cost in the country of the headquarters or entertainment may be accepted up to a specified cost in the country of the headquarters, to some other cost in Country X, and to some other cost in Country Y;
- And so on (Mead, Andrews, 2010)

To specify the content of the ethical code, it should cover following areas:

- Honesty
- Adherence to the law
- Product safety and quality
- Health and safety in the workplace
- Conflicts of interest
- Employment practices
- Selling and marketing practices
- Financial reporting
- Pricing, billing, and contracting
- Trading in securities/using confidential information
- Acquiring and using information about competitors
- Security
- Payments to obtain business
- Political activities
- Protection of the environment. (Rue, Byars, 2009)

A shared code has the advantage of protecting their employees against uncertainty. It also creates ethical uniformity which reduces the likelihood of conflict between members following different ethical priorities. It also projects a coherent message to the wider environment – suppliers, customers, competitors, and so on. The message says "this is how our members behave". Thus the code acts as a mission statement and also reduces the uncertainity for a member of some other organization or culture doing business with you. The full code covers a range of other issues, including bans on offering bribes, dishonest reporting, sexual harassment, relationship, judged inappropriate, and any behavior judged likely to draw the organization into disrepute.

The code can specify fights and duties which are – so far as possible – complementary. For example, employees have rights to work quality (or job satisfaction), and duties to comply with the labor contract and to give loyalty to the firm. Correspondingly, employers have duties to improve the quality of work and the rights to demand certain specified levels of productivity and cooperation. But this specification of rights and duties is formal and legalistic, and typical of Anglo and European cultures. In cultures with other priorities, a bureaucratic approach may not be appropriate. (Mead, Andrews, 2010)

Codes of conduct in the international context can be set externally or internally. A definition of an external code of conduct is guidelines, recommendations and rules issued by entities within society with the intent to affect the behavior of international business entities within society in order to enhance corporate responsibility. However, external codes of conduct are useful only insofar as they give companies guidance on how they should operate. The real challenge for a company is to become familiar with the codes of many different organizations and the codes may not be consistent with each other. However, armed with information about different codes of conduct as well as input from other stakeholders, companies must establish their own codes of conduct. There are four dimensions to creating such codes:

1. set a global policy that must be complied with everywhere the company operates
2. communicate the code of conduct to all employees within the organization and to all suppliers and subcontractors,
3. ensure that its policies are carried out, and
4. report results to external stakeholders (Daniels, Radebaugh, Sullivan, 2007).

The questions that arise are how far ethical norms are determinate by the culture and how far they transcend culture.

There is an example of the Ethical code of the Czech Statistical Office:

ETHICAL CODE

of the Czech Statistical Office

The Czech Statistical Office (CZSO) is a central authority whose principal mission is to produce and disseminate statistical information which gives a true picture of the economic, social, demographic, and environmental developments of the Czech Republic and its parts. The fundamental principles of its activity, which represents a service to the public, include

- freedom from political interference,
- impartiality,
- transparency,
- credibility.

All provisions and regulations in force for the state administration of the Czech Republic also apply to CZSO employees. The employees carry out their duties in compliance with their contracts of employment. Their mission includes the first-rate execution of the Statistical Service and state administration, also with respect to international standards. The first-rate statistical service which shall be open, available and correctly functioning requires that the employee has to be skilled, impartial, and behave honestly and politely.

Principles of behavior

CZSO employees shall

- act in accordance with legislation and CZSO internal regulations in force;

- be concerned about their good name as well as good reputation of the Office and the State Statistical Service;
- be concerned about their professional integrity and independence in their work and, therefore, neither use nor support work methods that could produce misleading results or results requested in advance;
- observe principles of impartiality when collecting, processing, analysing, interpreting, and publishing data;
- bring confidence and usability limits of released data to the user's attention.
- be concerned about not causing any misinterpretation of statistical surveys either deliberately or by carelessness;
- act fairly in contacts with other public authorities' employees, respondents and the public;
- mislead neither the public nor other CZSO employees deliberately;
- carry out duties at a high professional level and deepen knowledge by lifetime devotion to statistics;
- respect the principle of non-discrimination and work without any prejudice;
- act to ensure that financial resources and equipment entrusted to them are administered as economically and efficiently as possible;
- not allow their private interests to get in conflict with the position of the CZSO employee (the private interest being understood as any advantage used to the benefit of their own or of their families, relatives and close persons, and natural and legal persons they have been in business or other relations with);
- not permit in exercising their duties finding themselves in a position which would bound them to repay a favour done to them and shall inform their superiors about any advantage if offered;
- avoid any activities and actions in their private lives, which could undermine the public's trust in the CZSO;
- avoid any activities or actions irreconcilable with or reducing due performance of their duties;
- not put at risk guarantees of the freedom of the State Statistical Service from political interference, when pursuing political or other public activities;
- apply all measures needed to ensure the protection of personal, sensitive and individual data;
- adhere to the pledge of secrecy.

Relations to respondents in conducting statistical surveys, CZSO employees shall observe the fundamental principles of:

- not violating respondents' privacy;
- not burdening respondents with excessive amounts of requested information; and
- informing respondents that the data provided by them are also useful for them and that their confidentiality and anonymity are guaranteed.

Relations to colleagues CZSO employees shall:

- behave helpfully and fairly to each other;
- cooperate in dealing with assignments to achieve the goal as efficiently as possible;
- help young and new employees learn methods and techniques used in the Office and acquire necessary skills;
- be open to reviewing and evaluating their procedures of work in the framework of expert discussions.

Relations of CZSO executives to CZSO employees

In relations to employees, CZSO executives shall:

- ◆ avoid any discrimination;
- ◆ respect rights of the employee as individuality as well as the employee's right to information;
- ◆ enable employees to take part in the decision-making process;
- ◆ create conditions for making use of creative potential and skills of employees as much as possible;
- ◆ strive for objective appraisal of the performance of individual employees and fair remuneration.

Final provisions

The Code of Ethics is a recommendation to CZSO employees. Its objective is to support desired standards of behavior and law and order on the one hand and inform the public on the behavior they can request from the CZSO employee on the other hand.

Adhering to the principles laid down in the Code is part of regular performance appraisals of CZSO employees.(ČSÚ, 2012)

3.3 Business Ethics in the multinational context

Globalization also brought some ethical dilemmas the companies have to face.

Several countries in the world faced several financial problems and even dissolution because of their managers´ unethical or illegal actions. One case of unethical or illegal problems was monitored in Slovakia a few years ago when a Korean manager hit his secretary in the back because she came late to work. That morning her son got sick and she had to take him to see the doctor. She came late to work and this unexpected result happened. She had a serious health problems and when her husband found it out he did the same to her boss. A lot of problems occurred and at the court the owner of the firm stated the behavior of the manager wasn´t appropriate because he did it when she turned around. He was supposed to do it face to face. Another worker stated that the Korean managers were testing them how long and how hard they could work. So they prolonged the working time again and again and they were told they do it until the people begin to collapse. Then they know it is the limit for them.

So it is sometimes really difficult to work for a foreign company that brings its own culture to the host-country or to work abroad. One has to be prepared what the culture is about.[2]

Also, the managers face domestic dilemmas on what they should do to be ethical and socially responsible. Internationally, the dilemmas are even greater.

The US adult magazine, Playboy, had to suspend its Indonesian edition and vacate the company premises in 2006 in the wake of violent protests by Islamic demonstrators – even though the Indonesian edition was a toned-down version that did not show nudity.

The reason why there is a potential for such problems is that whilst globalization results in the deterritorialization of some processes and activities, in many cases there is still a close connection between the local culture, including moral values, and a certain geographical region. On the one hand, globalization makes regional difference less important since it brings regions together and encourages a more uniform "global culture". On the other hand, in eroding the divisions of geographical distances, globalizations reveal economic, political, and cultural differences and confront people with them. (Crane, Matten, 2010)

There are two important terms for discussion. On the one hand, relativism affirms that ethical truths depend on the groups holding them, making intervention by outsiders unethical. Adherence to or adoption of other cultures is itself a Western cultural phenomenon, one that goes back at least as far as St. Ambrose´s fourth-century advice: "When in Rome, do as the Romans do". On the other hand, normativism holds that there are universal standards of behavior (based on people´s own values) that all cultures should follow, making nonintervention unethical. Thus managers struggle with implementing what they consider to be a universal set of truths vs. adapting to local conditions on the assumption that every place is different and needs to be treated differently. (Daniels, Radebaugh, Sullivan, 2007)

How can we identify the ethics of an organization in the other culture? In practice, the expatriate resolves the contradiction by consulting his/her own personal values, or deciding where his/her interest lies. This may not be a major problem. A more difficult problem arises when the expatriate is:

- unable to discover the code formulated in one or both contexts;
- unsure how the code is implemented in one or both contexts;
- unaware that the codes differ.

The third of these may be crucial. Particularly, when the subsidiary does not make its code explicit, it is too easy to assume that there are no major differences between the ethical systems applied in the two organizations or the two national cultures.

2 The culture will be discussed more deeply in the fourth chapter.

The expatriate forces to do his/her own research in order to discover the ethical code. He does this research by:

- asking questions;
- observation, and deducing what behavior is allowed;
- observation, and deducing what behavior is NOT allowed.

The last can give a clear indication of the ethical code. (Mead, Andrews, 2010)

Many of these differences in business ethics are rooted in the differing cultural, economic, and religious histories of the nations. For example, US and Europe have two otherwise very similar contexts. One argument is that the influence of the Catholic and Lutheran Protestant religions in Europe led to a collective approach to organizing economic life whereas the individual focus of the Calvinist-Protestant religion in the US led to the rise of a distinctly different capitalist ecomonic system. In Asia, the influence of Hinduism, Buddhism, and Confucianism, for example, could be said to have led to a more pragmatic, relational, and flexible approach to ethical decision-making. The Muslim world, although diverse in its spread over three continents, is characterized by a number of ethical principles of which justice/fairness, trusteeship and integrity ("unity") can be considered core (Rice, 1999 in Crane, Matten, 2010). Such religiously informed ethical values can sometimes have far-reaching implications for business, as the example of Islamic financial systems shows (Nomani, 2008 in Crane, Matten, 2010). The differences in business ethics can also have other historic roots. The focus on individual action and codes of conduct in the US has been substantially driven by the impact of widely publicized corporate scandals that have focused attention on the need how to avoid ethical violation at the firm level. In the developing world, the poor governance, extreme poverty, or violence, can be understood as a heritage from colonial times (visible in countries such as South Africa, Brazil or Myanmar). In some countries such as Canada or Australia, it is mining companies - rather than just governments – that are exposed to ethical claims, upset for instance, on past and current discrimination against indigenous groups. (Lertzman and Vredenburg, 2005 in Crane, Matten, 2010)

Some ethical values are unchanging over time. All the major religions condemn murder, for instance – although even this is variable. In time of war some forms of murder are legitimated. Other values change radically in time. People may be tolerant of antisocial behavior until:

- it affects their own interests;
- they perceive that the perpetrators of this behavior are benefiting at their expense;
- increased understanding of the behavior leads to a reassessment of its effects on the community. (Mead, Andrews, 2010)

The next figure gives some examples of the ethical impacts of globalization on different stakeholder groups:

Table 3.1 Ethical impact of globalization

Stakeholders	Ethical impact of globalization
Shareholders	– Globalization provides potential for greater profitability, but also greater risks. Lack of regulation of global financial markets, leading to additional financial risks and instability
Employees	– Corporations outsource production to developing countries in order to reduce costs in global marketplace - this provides jobs, but also raises the potential for exploitation of employees through poor working conditions
Consumers	– Global products provide social benefits to consumers across the globe, but may also meet protests about cultural imperialism and westernization. Globalization can bring cheaper prices to customers, but vulnerable consumers in developing countries may also face the possibility of exploitation by MNCs
Suppliers and competitors	– Suppliers in developing countries face regulation from MNCs through supply chain management. Small scale indigenous competitors are exposed to powerful global players
Civil society (pressure groups, NGOs, local communities)	– Global business activity brings the company in direct interaction with local communities thereby raising the possibility for erosion of traditional community life. Globally active pressure groups emerge with ait to „police" the corporation in countries where governments are weak and corrupt
Government and regulation	– Globalization wakens governments and increases the corporate responsiblity for jobs, welfare, maintenance of ethical standards, etc. Globalization also confronts governments with corporations form regions with different cultural expectations about issues such as bribery, corruption, taxation, and philanthropy

Source: Crane, Matten, 2010

3.4 Corporate social responsibility (CSR)

Business ethics is very closely connected with the corporate social responsibility. Social responsibility is the obligation a business assumes to maximize its positive effect and minimize its negative effect on society. The idea of social responsibility became prominent during the 1960s in response to changing social values. Many businesses have tried to determine what relationships, obligations, and duties are appropriate between the business organization and society. (Farrell, 1991)

Henningfeld et al. (2007) defines CSR as "undertaking business in an ethical way in order to achieve sustainable development, not only in economic terms, but also in the social and environmental sphere. The Institute for Supply Management Principles of Social Responsibility defines social responsibility as "a framework of measurable corporate policies and procedures and resulting behavior designed to benefit the workplace and, by extension, the individual, the organization, and the community. The social responsibility principles cover seven areas (in alphabetical order):

- Community
- Financial responsibility
- Diversity
- Human rights
- Environment
- Safety
- Ethics (Lallatin,2004)

Starbucks defines CSR as conducting business in ways that produce social, environmental and economic benefits for the communities in which we operate and for the company's stakeholders, including shareholders. (Starbucks, 2006)

There are a lot of definitions of CSR. The Confederation of British Industry´s definition sheds light on what some of the responsibilities to stakeholders are, while that of the European Commission stresses that actions under the corporate responsibility umbrella are voluntary in nature. Finally, the ISO 26000 draft, the most recent of these definitions, refers to what companies are responsible for, reiterates the importance of stakeholder involvement and accountability, and adds that responsibility should be integrated into organizational practices. These broad definitions reflect claims about the values that companies wish to uphold such as honesty, fairness, and integrity, and these may be set out in standards or codes of practice. (Blowfield, Murray, 2011)

According to Carrol and Buchholz (2009) in Crane and Matten (2010), corporate social responsibility includes the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time.

Economic responsibility – Companies have shareholders who demand a reasonable return of their investments, they have employees who want safe and fairy paid jobs, they have customers who demand good quality products at a fair price, etc.

Legal responsibility – The legal responsibility demands that business abide by the law and "play by the rules of the game".

Ethical responsibility – These responsibilities oblige corporations to do what is right, just, and fair even when they are not compelled to do so by the legal framework.

Philantropic responsibility – The fourth level of CSR. The Greek word "Philanthropy" means "the love of the fellow human". In business, the model incorporates activities that are within the corporation´s discretion to improve the quality of life of employees, local communities, and ultimately society in general.

This concept is called **Carroll´s four-part model of corporate social responsibility.** (Crane, Matten, 2010)

Manne (Manne and Wallich, 1972 in Blowfield, Murray, 2011) claimed that true corporate responsibility expenditure as well as being voluntary was that which:

- ◆ generates marginal returns less than those available from alternative courses of action;

- is an actual corporate expenditure, not a conduit for individual largesse.

The Committee for Economic Development, comprising US corporate leaders, identifies three concentric circles of responsibility that blurred Manne´s distinctions:

1. creating products, jobs, economic growth
2. sensitivity to changing social values
3. emerging responsibilities such as poverty and urban blight. (Blowfield, Murray, 2011)

The opportunities for the companies are obvious, but there still appears a lot of criticism of CSR. It is possible to divide them into four types:

1. Corporate responsibility stifles the primary purpose of business and ultimately, hampers the functioning of free markets.
2. Corporate responsibility favours the interests of business over the legitimate concerns, demands, and expectations of wider society.
3. Corporate responsibility is too narrow in its focus and does nothing to address they key aspects of the business-society relationship.
4. Corporate responsibility is failing to achieve its objectives and needs to adopt new approaches if it is to succeed (Blowfield, Murray, 2011).

Questions for Discussion

1. What are the main problematic areas of Business ethics in international business?
2. Is CSR just a mean to make a good image of the firm?
3. What is the main object of criticism of CSR? Do you agree with the critics?
4. Have you ever heard about CSR companies? How did you know about their attitude to business and were their CSR activities visible?

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4. Role of the Culture in International Business - Introduction

Learning objectives:

- to define the culture
- to introduce the models of business cultures and organizational models
- to explain behavioral practices affecting business
- to mention the possibilities of cultural analysis

Introduction

The good knowledge of culture is necessary not just for the firms operating on a foreign market but for an individual as well. If a person is travelling to other countries, primarily on the other continents, the differences between the cultures could be really huge. Sometimes, it can bring a lot of problems. Some of them are small, innocent misunderstandings, like when you order coffee and want the "Czech Preso" and they bring you an Italian small "espresso". But some problems can really bring one in trouble – if taking photos of some places or people without permission, if making jokes on some politicians etc. This kind of problems can cause that the person could be arrested.

The same problems face the companies. For example showing up for a business meeting without a tie might be acceptable in Israel, but it would be completely out of place in Switzerland. Demonstrating great respect to a superior would be appreciated in Indonesia, but it would send the wrong signal in the Netherlands, where equality among individuals is valued. (Rue, Byars, 2009) It is necessary to know the country - the economical, political and legal, social, technological and economical factors of the environment. But we can´t forget on the culture and with the culture connected etiquette. According to Ferraro (1998), one of the most common factors contributing to failure in international business assignments is the erroneous assumption that if a person is successful in the home environment, he or she will be equally successful in applying expertise in a different culture. For example, when American firms try to market their products in other countries, they often assume that if a marketing strategy or slogan is effective in Cleveland, it will be equally effective in other parts of the world. Like the General Motors corporation, when advertising its "Body by Fisher" in Belgium they used words translated into the Flemish language as "Corpse by Fisher". An airline offering service to Brazil advertised that it had comfortable "rendezvous lounges" in its business-class section. Unfortunately, it failed to realize that the word "rendezvous" in Portuguese referred to a room for illicit sexual encounters. (Ferraro, 1998) These are just a few examples but together with other experiences of the multinational companies prove the existence of cultural differences and the need for greater awareness of the cultural environment.

4.1 Definition

The term "culture" refers to the finer things in life, such as the fine arts, literature, and philosophy. This term has been defined in a variety of ways. There is no agreement on a single definition of the term. Kroeber and Kluckhohn (1952) identified over 160 different definitions of culture. (Ferraro, 1998) Probably the best known is by Hofstede (1984): "Culture is the collective programming of the mind which distinguishes the members of one human group from another. Culture in this sense includes systems of values; and values are among the building blocks of culture." (Hofstede, 1984 in Mead, Andrews, 2010)Culture refers to the learned norms based on attitudes, values, and beliefs of a group of people.

Culture is transmitted through the process of learning and interacting with one´s environment rather through the genetic process. (Ferraro, 1998) By the age of five we were already experts in using our language. We had learned how to communicate different language functions appropriately; for example, how to:

- Interact with other members of your family;
- Elicit rewards and avoiding punishments;
- Negotiate for what you wanted;
- Cause, avoid, and resolve conflict.

The differences among cultures begin already here. Here is an example of difference between our culture and the Korean one. Koreans learn in their childhood to be cautious of claiming "my" relationship; rather than "my mother" and "my house", the well-behavied child soon learns how to refer to "our mother", "our house".

Values are defined here as assumptions that members of a culture group about how they should behave and do behave. (Mead, Andrews, 2010)

Rolný (2009) states that culture is also shared (culture is located and transmitted in groups, the social transmission of culture tends to unify people by providing us with a common experience) and symbolic (the human ability to use symbols is the basis of culture, while human symbol use is overwhelmingly linguistic, a symbol is anything that is used to represent any other thing, when the relationship between the two is arbitrary (e.g., a flag).

Daniels, Radebaugh and Sullivan (2007) state that the major problems of cultural collision in international business are when:

- A company implements practices that work less well than intended.
- A company´s employees encounter distress because of an inability to accept or adjust to foreign behaviors.

Because international business includes people from different cultures, every business function – managing a workforce, marketing output, purchasing supplies, dealing with regulators, securing funds – is subject to potential cultural problems. (Daniels, Radebaugh, Sullivan, 2007)

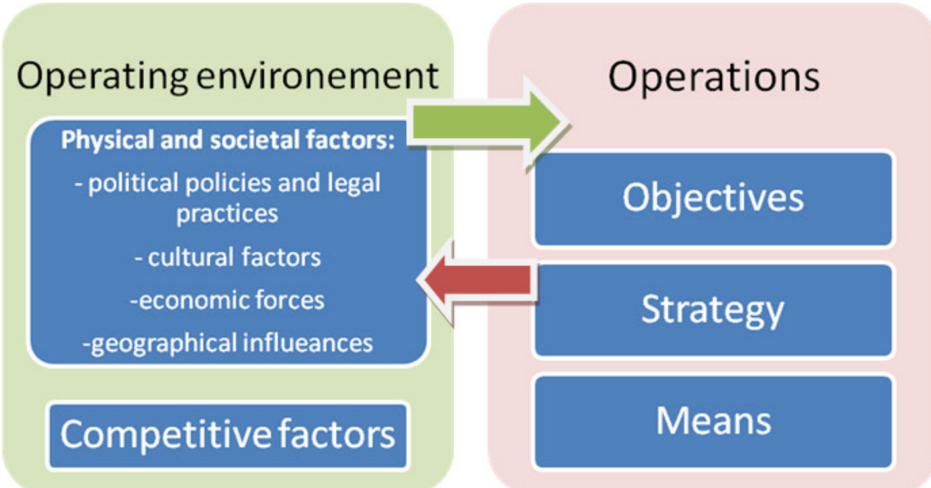

Figure 4.1 Cultural Influences on International Business (Source: Own elaboration based on the figure by Daniels, Radebaugh, Sullivan, 2007)

There are two main stabilizers of the culture: language and religion. Why? A common language within countries is a unifying force and many strong values are the result of a dominant religion.

Culture shock – even when people move to another country where differences are not traumatic to them, they can often encounter cultural shock – the frustration that results when having to learn and cope with a vast array of a new cultural cues and expectations.

Reverse culture shock - Some people also encounter culture shock when they return to their home countries – because they have learned to accept what they have encountered abroad. (Daniels, Radebaugh, Sullivan, 2007)

4.2 Models of Business Cultures and Organizational models

4.2.1 Models of Business Cultures

Business culture of an international (multinational) organization is a result of the interconnection (and often concurrence) of two or more national and business cultures. From the text above it is obvious that it is influenced by many dimensions. When solving business cultures in concrete cases of organizations, three main models are often used (Nový, 1996):

1. **Cultural dominance model** (global business culture), aim of which is to create a single strong business culture in all branches (daughter-companies) of a certain organization. This model is universalistic, pursues universal goals, values, norms, and patterns of behaviour. The need of a united business culture is reasoned by:

- the necessity to pursue the same unified strategy in all countries (McDonald‘s), and strengthening the world identity, and image of an organization,
- the economical and organizational advantages resulting from the possible united and simple system of management and from the possibility of its fast implementation.

This model is usually easy to introduce in the cases of establishing the international branches as new business subjects under direct investment. The key aspect of creation of this global culture is mastering the system of personnel management by the mother organization. The decisive staffing activities being influenced by the mother organization include recruitment, selection, training, education, and carrier development of employees.

2. **Culture plurality model** (poly-centric business culture), which is a compromise model, and its goal is to enable every daughter company (branch) to apply the dimensions of national and business cultures of the given country. Universalistic features are applied only in a limited way. The reasons for introducing this model are usually following:
   - organization operates in so different regions in terms of culture that the model of cultural dominance is unreal,
   - goals of organization can be realized only using a full creative involvement of employees and branches in particular countries, which can be reached by accepting their cultures,
   - mother organization wants to get to know the positive dimensions of particular national cultures, and use them later on for the benefits of the development of the whole organization.

   This model has certain disadvantages for the mother organization based on higher level of independence of particular branches, due to which there can appear separative tendencies, emphasizing the importance and strengthening local branches to the prejudice of the mother organization. Therefore mother organizations often realize rotations of managers in particular countries within this model, create international teams for solution of common problems, etc. Personnel management mostly belongs to the authority of daughter companies. Talking about advantages polycentric approach seeks to eliminate high cost of relocating expatriate managers and families. Secondly this approach offers a degree of autonomy in decision making to subsidiary heads. Subsidiary heads are in a better position to adapt to local needs and tastes. Third, since host country citizens are used, training costs may not be high. Fourth, host country nationals are less expensive than deputing home country citizens as expatriates to work in subsidiaries. (Aswathappa, 2010)

3. **Synergic model** (geocentric business culture) is oriented to the use of specific features of particular national cultures and creating a unified integrated culture, which is not a result of the dominance of one, but of mutual interconnection of all regional parts of multinational organization. This model is considered to be the

model of the future. Organizations are usually structured more horizontally than vertically and decision authority is delegated to the branches. Mother organization has the coordination function. This culture creates a strong feeling of employees towards belonging to the organization and strengthens the awareness of their co-responsibility for results. Geocentric business culture usually emerges as a higher development stage of the plurality model.

Among the advantages of geocentricism is that the company becomes truly cosmopolitan. Second global managers are able to adjust to any business environment, particularly to cultural differences. The major drawback of geocentricism is the additional costs incurred on training and relocation of expat managers. Compensation of expatriates is higher than for host country employees.

Some specialists talk about regiocentricism. It operates in the same way as polycentricism. But they differ in that polycentric company adapts IHRM practices to countries and the geocentric to regions. (Aswathappa, 2010)

More recent researches refer to a new interesting approach (Meffert, 1996 in Pošvář, 2007) according to which the types (models) of business cultures are put into the context of business strategies. This approach differentiates four types of business cultures where the synergic business culture is considered to be a development stage of the global culture, which is connected with a lapse of values and norms of behavior of the host country, and can have critical implications for many multinational organizations. (Pošvář, 2007)

4.2.2 Organizational Models

Since there are many alternatives of entry of organizations to foreign markets, there exist a number of more or less different models (types, systems of organization and management) of multinational organizations which can be divided into three groups in concurrence with the models of business cultures:

1. **Ethnocentric organizations** which are based on preference of cultural dominance of the mother organization. They apply the management system coming from the culture of the country where the mother organization (headquarters) is located. The main characteristic features of this type of organizations lay in the facts that (Pražská, 1997 in Pošvář, 2007):
    - organization chooses markets and countries where a high level of adjustment to the local conditions and consumption habits will not be necessary,
    - selected field of business is dependent on the needs of the mother organization and the goal of the business is profits repatriation to the country of the mother organization,
    - autonomy of the daughter organizations (branches) is low, key functions are taken by the people from the mother organization,
    - local employees are requested to adjust to the culture, management, and style of leadership of the mother organization.

The ethnocentric organization eases creating a unified image, multiple use of know-how, fast introduction of production (activity), guarantees management quality, eases communication with the mother organization, etc. Complications can arise from the language barriers. Ethnocentric behaviour can be often identified in the case of Japanese, American, and European organizations entering a less developed country.

2. **Polycentric organizations** which respect plurality of cultures. These are organizations oriented on adjustment to the local conditions. Their characteristic features are:
   - organization accepts local markets and chooses such products and technologies which should represent the needs and demands of local markets for which the products are aimed,
   - business profits are usually invested in the country where they were achieved
   - local branches (daughter companies) have a high autonomy in decision-making when setting and reaching local goals, and these goals have a key importance in strategic decision-making of the headquarters,
   - managerial positions in the branches are occupied by the local employees, who better know the market demands, and the social, cultural, and consumption habits of customers.

   Polycentric organizations enable to think globally, and do business locally" using the creative activity of the local employees, and to gain competitive advantages in local and world markets. Certain danger for the mother organizations can be the separative tendencies of the branches.

3. **Geocentric organizations** which try to realize the synergic model of business culture. They apply so called global approach to organizational management.

   They neither prefer the interests of the mother nor the daughter organizations, but pursue the global integration and synergy from the viewpoint of advantages for the organization as a whole. Other characteristic features of this type of organization dwell in the facts that:
   - strategic decision-making is a matter of common negotiations of the representatives of the mother and also local organization,
   - local branches have an autonomy, but it is expected that in case of need they will cooperate with other local branches,
   - local branches can produce products aimed for the world market and adjust them according to the demands of customers for the local market,
   - profits generated by the branches are usually redistributed to the branches and countries which represent the best opportunities for the organization as a whole,
   - managerial positions are occupied by the best employees regardless the country, mother organization or branch they come from.

Geocentric organization enables to produce universal, global products aimed on the world market as well as their modifications aimed on the local markets, and thus to use a comparative advantage in different parts of the world. It is an organization which enables to quickly react to the changes in the world and local markets.

Each of the above-mentioned types (models) of multinational organizations can have a number of varieties depending not only on the national and business cultures of the particular branches, but also on the size of the whole organization, field and form of its business, number, and business environment of the countries where the branches are located, on its strategy, etc. Every multinational organization also has to change and adjust to the competitive environment, if it wants to be viable in a longer term; it also has to adjust its management model to the changing environmental conditions. (Pošvář, 2007)

4.3 Analyzing Cultures

There are different methods how to analyze the culture.

Comparative models – measures one culture against another, and enables the manager or consultant to compare the behavior of one culture with another. A comparative model cannot describe one culture alone. These models are useful when they help the manager compare the characteristics of different cultures and reach a decision. Hofstede´s model identifies the level of differences among different countries. It was based on the research (in the end of 60ties and begin of the 70ties) of 116.000 employess of the IBM company in 65 countries of the world and another research was made in 1982. (Světlík, 2003)

Hofstede uses the five dimensions to distinguish between national cultures are:

- power distance (PDI)
- individualism and collectivism (IDV),
- the dominant values of masculinity and femininity (MAS),
- uncertainty avoidance (UAI),
- Confucian dynamism (LTO).

◆ **Power distance (PDI = power distance index, 0-100)**

In cultures with low power distance, people are likely to expect that power is distributed rather equally and furthermore, they are also likely to accept that power is distributed to less powerful individuals. Opposed to this, people in high power distance cultures will likely both expect and accept inequality and steep hierarchies. (Hofstede, 2001) (In countries where the power distance is high the index is higher than 50.) The highest values reach in each community the nonqualified manually working people. The higher the level of education is the lower value of PDI is observed (educated and qualified managers). (Světlík, 2003)

◆ **Individualism and collectivism (IDV = individualism index, 0-100)**

In individualistic cultures people are expected to portray themselves as individuals who seek to accomplish individual goals and needs. In collectivistic cultures, people have greater emphasis on the welfare of the entire group to which the individual belongs where individual wants, needs and dreams are often set aside for the common good. (Hofstede, 2001) For example, USA, Great Britain or Netherland belong to the countries with high value of IDV. The low value was measured, for example, in Portugal or Greece. (Světlík, 2003)

- **The dominant values of masculinity and femininity (MAS = masculinity index, 0(feminine) - 100)**

These values concern the extent on emphasis on masculine work related goals and assertiveness (earnings, advancement, title, respect et.), as opposed to more personal and humanistic goals (friendly working climate, cooperation, nurturance etc.) The first set of goals is usually described as masculine, whereas the latter is described as feminine. These goals and values can, among other, describe how people are potentially motivated in cultures with e.g. a feminine or a masculine culture. (Hofstede, 2001) The highest values of MAS are in Japan, Austria, or Italy, the lowest in Sweeden, Netherland, or Protugal. (Světlík, 2003)

- **Uncertainty avoidance (UAI = uncertainity avoidance index, 0-100)**

Uncertainty Avoidance is referring to a lack of tolerance for ambiguity and a need for formal rules and policies. This dimension measures the extent to which people feel threatened by ambiguous situations. These uncertainties and ambiguities, for example, may be handled by an introduction of formal rules or policies, or by a general acceptance of ambiguity in the organizational life. The majority of people living in cultures with a high degree of uncertainty avoidance are likely to feel uncomfortable in uncertain and ambiguous situations. People living in cultures with a low degree of uncertainty avoidance are likely to thrive in more uncertain and ambiguous situations and environments. (Hofstede, 2001) The countries with low value of UAI have a lack of laws and rules. The uncertainty is considered as normal. The behavior of consumer is seen here, for example, in the buying of old used cars in the contrary to the behavior of people from countries with high value of UAI. (Světlík, 2003)

- **Confucian dynamism (LTO)**

Long-Term Orientation is the fifth dimension which was added after the original four dimensions. This dimension was identified by Michael Bond and was initially called Confucian dynamism. Geert Hofstede added this dimension to his framework and labeled this dimension long vs. short term orientation. The consequences for work related values and behavior springing from this dimension is rather hard to describe, but some characteristics are described below.

Long term orientation:

- Acceptance of that business results may take time to achieve
- The employee wishes a long relationship with the company
- Short term orientation:
- Results and achievements are set and can be reached within timeframe
- The employee will potentially change employer very often. (Hofstede, 2001)

Low values are measured, form example, in GB, Germany, Netherlands, or Sweeden. The opposite is Asian countries like China and Japan. (Světlík, 2003)

The fifth Dimension was added in 1991 based on research by Michael Bond who conducted an additional international study among students with a survey instrument that was developed together with Chinese employees and managers.

That Dimension, based on Confucian dynamism, is Long-Term Orientation (LTO) and was applied to 23 countries. (Hofstede, 2001)

In 2010, research by Michael Minkov allowed to extend the number of country scores for this dimension to 93, using recent World Values Survey data from representative samples of national populations.

In the 2010 edition of Cultures and organizations, a sixth dimension has been added, based on Michael Minkov's analysis of the World Values Survey data for 93 countries. This new dimension is called Indulgence versus Restraint. (Hofstede, Hofstede, Minkov 2010)

Other comparative models:

- **Kluckhohn and Strodtbeck**
- **Hall**

There are other models that post-date "Culture´s Consequences" and still retain its fundamental principle of making bi-lateral comparisons. They are:

- **Laurent (1983)**
- **Trompenaars (1993)**
- **Schwartz (1994)**
- **Schwartz (1999)**
- **House et al. (various authors and dates)**

Trompenaars and Hampden-Turner (1997) adopt a similar onion-like model of culture. However, their model expands the core level of the very basic two-layered model, rather than the outer level. They tried to specify the behavior of the people in different countries more deeply. In their view, culture is made up of basic assumptions at the core level. These 'basic assumptions' are somewhat similar to 'values' in the Hofstede model.

Trompenaars and Charles Hampden-Turner use seven dimensions for their model of culture:

- universalism vs particularism (what is more important - rules or relationships?),
- individualism vs communitarianism,
- neutral vs emotional (do we display our emotions or keep them in check?),
- specific vs diffuse (how far do we get involved?),
- achievement vs ascription (do we have to prove ourselves to gain status or is it given to us just because we are a part of a structure?),
- attitude to time – past/present/future-orientatedness, sequential time vs synchronic time (do we do things one at a time or several things at once?)
- internal vs external orientation (do we aim to control our environment or cooperate with it?) (Sinha, 2012)

Of course, none of these models are perfect. They are criticized that they do not help the manager predict change in the culture. They do not explain why groups and individuals are led to modify their values through interaction with each other. So there are some new approaches that try to resolve these problems (like Lowe 2002, Fang 2006). (Mead, Andrews, 2010)

Questions for Discussion

1. Look at the social stratification in your country. Is there a big inequality in gender, age, or social status?
2. Have you ever experienced a cultural misunderstanding? How did you solve the situation?
3. Do you think the globalization is repressing the national culture?

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