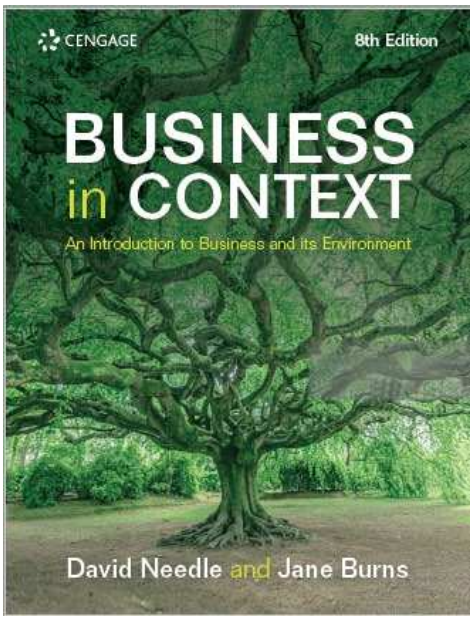
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BUSINESS IN CONTEXT 8th EDITION – TEACHING MANUAL CHAPTER TWO
GLOBALIZATION



This chapter examines a number of different topics:

- Definitions of globalization; its causes and drivers.
- The development of globalization, particularly trends since the beginning of the 20th century.
- Economic, political and cultural aspects of globalization.
- Different perspectives on globalization, including the movement towards de-globalization.
- The development of the multinational firm and different types of structural arrangement in the global economy.

In doing this, a number of topics closely associated with globalization are covered. These topics are linked and include:

- Global markets, global factories and global supply chains.
- Off-shoring and outsourcing.
- The multinational and transnational organizations and explanations for their growth.
- Alliances and joint ventures.

Discussion questions and answers

Below you will find suggested answers to the discussion questions set at the end of every chapter. It must be stressed that these answers offer guidance only and are not

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intended as 'model' answers. It is important that students think for themselves and many of the questions require them to apply the knowledge they have gained from the book to a specific context. We recognize that such contexts may vary for different groups of students. It is more important that students think of the issues in the industry, business or even national context that is most relevant to them. In some cases, a specific answer cannot be given but, where this happens, suggestions are offered for tackling the question.

1. *In what ways does globalization have an impact on either (a) your firm or a firm with which you are familiar, or, (b) your college?*

   The answers are likely to be specific to certain firm or college, but they should cover the cross-border movement of goods, services, people, ideas, etc., alliances with firms or colleges in other countries. There should be some focus on how this has changed over the last ten years and the impact this has had on the daily experience of employees/students. A firm might have cross-border supplies, markets, production arrangements, joint ventures, staff mobility and so on. A college may have cross-border flows of students, staff, have alliances with other colleges, plus there may be ways in which globalization has influenced the curriculum.

2. *Outline the main arguments put forward by the globalists, the anti-globalization lobby, and the sceptics. Which view do you support and why?*

   The main arguments are all presented on pp. 46–49 and summarized in Table 2.5, p. 46. Students must be able to cite specific examples and evidence to support their position.

3. *Examine the key drivers of globalization. Which are the most influential?*

   The key drivers are classified in the text as factors external to the organization, such as political change and technological change, and factors internal to the organization, such as cost and the desire to grow. These points are presented in detail in pp. 19–21.

   All the points mentioned are important and it should be acknowledged that many are interrelated. However, authors disagree on which is the most important. Bartlett and Ghoshal (1995) cite political change as the most significant driver, including the liberalization of China and the former USSR and Eastern bloc countries. Castells (1996) cites the developments in information and communications technology. Yip (2003) highlights market change.

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These different reasons have probably been more important at different times. In the early days, the spread of rational knowledge plus market expansion with developments in capitalism were important. In the late 20th century, key changes have certainly included the opening of markets as a result of political change, technological innovations, especially ICT, the influence of the multinationals and the development of international regulations. However, in more recent years, cost has been a major driver, causing firms to seek low cost solutions, such as offshore outsourcing in lower wage market economies.

4. *Assess the contribution of developments in ICT to the growth of globalization.*

ICT has had a significant influence on the exchange of ideas, the spread of information and in enabling workers in different countries to collaborate on the same project without leaving their work stations. Examples include the use of the internet, the computer linked world economy and the internationalization of shares, and how workers in different countries can work together via email, telephone, video conferencing, and linked computer systems. A key factor here has been the networking of the global economy. ICT supports the coordination and control of the global factory, the global supply chain and both offshoring and offshore outsourcing in general. ICT has been especially important during the COVID-19 pandemic. Key arguments are presented on pp. 19, 22–27 and 50–51.

5. *To what extent can you argue the case that large corporations have become as powerful as nation states?*

There have been several tables published (refer to for example Table 2.2, p. 30 with related arguments on pp. 29–31). The tables demonstrate that the sales value of some companies is greater than the GDP of many nation states. Critics consider such developments to be dangerous and undemocratic since companies are answerable only to their most powerful shareholders and ownership patterns may be spread across several countries.

Counter arguments suggest that sales value and GDP cannot be compared in this way and that nation states wield considerably more influence through their ability to collect taxes, make laws and go to war.

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6. *Contrast the main features of a transnational corporation with those of a multinational.*

In some ways this is a potentially misleading question. It uses Bartlett and Ghoshal's distinction between international, multinational, global and transnational companies. Others feel that all the above are types of multinational and that Bartlett and Ghoshal's definition of a multinational is better called a multi-domestic company.

On that basis the main differences between a multi-domestic and a transnational are that the former emphasizes meeting local needs via local production, whilst the transnational does this and focuses on the creation of global efficiencies as well. The transnational mixes centralization and decentralization and tries to create a cross-border mentality around a corporate identity.

Refer to the text pp. 33–34 for more detail.

7. *Why have joint ventures emerged as a major organizational form in a global economy? What are the main criteria for the success of a joint venture?*

Reasons for joint ventures (refer to pp. 36–37):
- Survival in the face of competition.
- For market growth and new market entry.
- To assist in technology transfer.
- To access specific core competencies in the partner firm.
- To achieve synergy.
- Cost reduction.
- Reduce risk.
- Increase control of the supply chain.
- Gain competitive advantage through accessing the partner's local knowledge.

Success criteria (refer to p. 41):
- Select the right partner.
- Strategic fit.
- Respect for each other's capabilities.
- Systems, cultural and personal compatibility.
- Commitment by both parties.
- Agree the formula for control of the joint venture and what to do in the case of a dispute.
- Agree on the criteria for performance measurement.

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8. *What are the main features and key strategic rationale for a global production system? Identify such a system in both the manufacturing and service industries.*

A global production system includes the fine-slicing of operations into a number of different components, creating the global factory (pp. 22–26) and the global value chain (pp. 26–27). This involves linked and integrated operations in several countries with networked systems of operation and information; the use of labour as a global resource; the creation of cross-border teams and management and the development of new organization forms e.g. joint ventures, offshore production companies and contract outsourcing.

The key features are set out in five points at the top of p. 24. The global factory and global supply chain have been made possible by the application of technology to enable the same quality products to be made in different locations, through the process of codification. There have also been developments in ICT to enable global coordination and control; access to lower cost labour; the development of cheaper shipping (via containerization) and lower cost airfares.

The key strategic rationales include:
- Cost reduction – this is probably the main reason.
- Using specific core competencies around the world.
- Exchange of ideas and the creation of new ones.
- Technology transfer.

A good example from manufacturing would include the automobile industry and companies such as Ford and Daimler Benz or computers as with Dell. From the service industry, examples could include insurance (e.g. AXA), accounting (PwC) and retail and distribution (Amazon).

9. *Has de-globalization been taking place in the first quarter of the 21st century?*

Globalization has been affected by key political changes that have occurred in the first quarter of the 21st century, although their origins lie in the post-war 20th century. The changes (refer to p. 50) include:
- A threat to liberal democracies in Europe and the USA.
- The rise of China as a dominant world power.
- Increased border controls.
- The break-up of regional alliances.
- The weakening of international organizations such as the WTO and World Bank.

The result has been a less connected world than predicted. A key question is

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the extent to which this is a temporary shift, similar to what occurred in the first part of the 20th century (refer to p. 18), or something that will be more long-lasting.

Students could also consider whether new forms of globalization are emerging and discuss issues such as the growing concern over climate change, the increasing power of large digital technology companies and the growth of cybercrime.

10. *What has been the impact of the COVID-19 pandemic from 2020 onwards on globalization?*

Key arguments are outlined in pp. 50–51. The pandemic has had a significant impact on the global movement of trade, capital, information, and especially, people. The impact is continuing with large variations between countries (for example events in China in late 2022). Therefore, students should be encouraged to seek up-to-date information.

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Case study questions and answers

General

As with most case studies, there are no definitive answers and the indicative answers below are only a guide. This is especially true where students are asked for an opinion or are asked to speculate. We would hope that class discussion will generate some additional, different (and equally valid) ideas to those expressed below.

CASE 2.1 FROM JEEP TO MERCEDES

1. *What were the main reasons for the joint venture between AMC/Chrysler and BAIC, formerly the Beijing Auto Works? What benefits were gained by both parties?*

The main advantages for Daimler Chrysler:

- Low risk entry into a market of high potential growth. At the start of this project, a joint venture was the only way a foreign firm could enter the Chinese market. While that had to change as a condition of China's membership of the WTO, it remains a requirement of the automobile industry that no foreign company can own more than 50% of an automobile firm in China.
- The sale of jeep kits and spares to the joint venture company as well as a share of the profit from the sale of jeeps.
- Investment was underwritten by the Chinese government.
- Daimler Chrysler could increase their stake as the company grew (and they did from 31%-50%).
- No competition for 4-wheel drive cars when they entered the market.
- Access to new regional export markets.
- Protection of the brand and limit to technology transfer as well as extending the product life cycle by allowing BJC to manufacture an old model only.

The main advantages for Beijing Auto (and by implication the regional and national economies):

- Access to Western technology and systems and management know-how.
- Access to a global brand.
- A route to greater efficiency and profitability.
- Obtain political kudos within China.
- Gain access to export markets.
- Bring in hard currency.
- Create jobs.
- Technology and know-how transfer to local the supply chain.

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2. *What were the early problems and issues encountered by this joint venture?*

The analysis here uses in part Medcof's model of the 4Cs – capability, compatibility, commitment and control:

- Strategic fit: the two partners had different goals - the US saw low risk market entry as the primary goal, whereas China wanted technology and know-how transfer. These can complement each other but only until such a time that one of the partners has achieved their aims and/or want more.
- Capability: a major issue was the ability of the Chinese staff and supply chain to meet US productivity requirements and quality specifications.
- Compatibility: a number of issues are important here, including accounting systems incompatibility and difficulties related to cultural differences and attitudes, e.g. sending younger staff is a common management development strategy for US multinationals. Young talented managers tend to be more flexible and less encumbered by family ties. However, Confucian values equate age with wisdom. This means that younger people have less to teach the Chinese.
- Commitment: the Chinese questioned the US commitment when they sent only younger staff and were unable to communicate in Mandarin. The extent of US commitment is also illustrated by their desire to limit technology transfer.
- Control: issues here include the arrangement for the ownership of the joint venture and the influence of Chinese national and local politics. A key area of tension is what happens when the parties fail to agree – how such disputes are resolved.
- When Daimler stepped in, Beijing Jeep faced a number of dilemmas. These included:
  - Fall off in sales and productivity.
  - Dated plant, technology and models in need of considerable investment.
  - Increased competition for 4-wheel drive vehicles in the Chinese market.
  - Overstaffing.
  - BJC had lost its premier position in the market.
  - Significant lack of investment by its predecessor partner.

3. *Assess the dilemma facing Daimler-Chrysler in 1998. Was the company justified in its decision to invest?*

Dilemmas facing Chrysler in 1998 included:

- Dated plant, technology and models in need of considerable investment.
- Increased competition for four-wheel drive vehicles in the Chinese market.
- Overstaffing
- Beijing Jeep had lost its premier position in the market.

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There is evidence to suggest that the decision was justified:

- A wider model range in the Jeep, the introduction of the latest models and the introduction of saloon cars gave the company a stronger base for market growth.
- The company was back in profit by 2003.
- The company had successfully expanded beyond the Beijing market.
- New plants incorporating the latest technology were built.
- Investment laid down the foundations for the focus on Mercedes vehicles following the demerger from Chrysler.
- Daimler Benz went from strength to strength. By 2020 China had become their largest market (refer to Table 2.3, p. 40).
- A new R&D centre was opened in China in 2021.
- China was seen as a prime market for the expansion of electric cars given the problem faced with urban pollution.

4. *Assess the motives of Daimler Benz since 2001.*

- 2001 was a watershed. There had been no investment for several years. Competition had increased in this market sector with competitors offering newer models and hence better technology. Sales and revenues dropped, as did productivity. Daimler-Benz was also having difficulty with Chrysler in the UK and their financial position was much worse than the Germans had predicted. There were a series of plant closures and redundancies in the USA.
- Faced with a decision to cut and run in China or invest, Daimler-Benz chose to invest. Between 2001 and 2006, two new plants were built, one focusing on the Jeep with the introduction of a bigger range of models, all of which were now identical to those sold in the USA. Mercedes cars were also introduced as well as the Chrysler saloon. Daimler-Benz also extended distribution throughout China and introduced financing for vehicle purchase (before then a system almost unknown in China).
- The period from 2006 was one of significant change. Chrysler was sold. Jeep production was halted, and Daimler-Benz became the only partner with a 50% share. China was made the regional HQ for Daimler Benz and production expanded into other Mercedes models. R&D was stepped up. China became Daimler-Benz's largest country market with further investment in R&D and electric powered vehicles (refer to Q3 above).

An interesting question is whether Daimler Benz's strategy was incremental as they gained more knowledge of the Chinese operation and learnt more about the very weak financial position of Chrysler, or whether there was a plan from the

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start to dump Chrysler in China and use the existing joint venture as a bridge-head to launch the ultimately more profitable Mercedes range. There is no correct answer to this. Elements of both positions can probably be supported.

CASE 2.2 MULTINATIONALS AND CORPORATE TAX

1. *What variations exist in both the rate of corporate tax and the amount of corporate tax paid in different countries? What reasons can you give for these variations?*

The variations are as follows:

- The absolute rate varies globally from 0% to 55% with a global average of 23.85%. Significant variations occur even in the EU, from 9% to 35% with an average of 20.97%.
- In most countries, the rate will vary according to the level of profit.
- In most countries, rates can be negotiated with the tax authorities so that the rate paid is lower than the official rate.

The reasons for the variation include the following:

- Rates of all forms of tax are set to raise whatever revenues a country requires to fund public services. The needs of each country will vary.
- Lower tax corporate tax rates tend to be set to attract inward investment, especially for those countries wishing to expand a low resource base and create jobs.
- Higher rates tend to be found in larger, more developed markets. They have less need for tax incentives since the size of the market is a sufficient draw for inward investment.
- A related and interesting question is what benefit derives to those countries or areas (Guernsey, Jersey and the Isle of Man are part of the UK and until 2019 part of the EU) charging 0% corporate tax. For the most part, they are small islands with low populations and may not require the level of employment that a large inward investment could bring. These tax havens attract nominal HQs of large multinationals with few employees. There is clearly benefit from other tax revenues that having nominal HQs could bring such as property tax (The Bahamas, for example, has rates of property tax that are the highest in the world).
- Negotiated rates are a function of the needs of the country (as in the case of job creation) and of the multinationals concerned (primarily to minimize tax payments). In some cases, discounts are available for those companies with large profits.

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2. *What strategies do multinationals use to minimize tax payments? To what extent are such strategies legal and to what extent are they ethical?*

Strategies include the following:

- Set up operations or at least a presence in low tax areas.
- Negotiate the rate with the tax authorities and the government.
- Create shell companies in low tax countries or where a low rate has been negotiated to channel revenues from a number of different areas, as Apple did in Ireland with revenues earned across the EU.
- Establish high value activities such as R&D, design and marketing in a particular country or countries and transfer revenues as costs.
- Switch location if tax rates increase, as with Apple's proposed move to Jersey.
- US companies, who must pay taxes to the US Government for revenues gained in other countries, make use of the loophole in the US tax laws to hold potential tax revenues overseas.

Are such strategies legal? On the surface they are, except:

- It is possible to manipulate costs attributed to some high value activities such as R&D, design, etc.
- In the EU, favouring some companies over others by allowing them to negotiate lower tax rates is contrary to EU competition policy and hence illegal under EU law.

Are such strategies ethical? A number of possible arguments could be used, including:

- By not paying the full amount of taxes multinationals are depriving countries of tax revenue and therefore depriving the community of revenue that could be used for health care and education. This could also mean that higher rates of income tax are charged.
- It is unfair to those firms who are unable to do deals and who therefore pay tax at higher rates. This may mean that foreign multinationals get a better deal than local firms.
- Is it ethical that the profit from earnings derived from sales in one country can be transferred to another for tax purposes?
- Is the loophole for tax avoidance used by USA firms overseas fair to US firms who only operate in the USA?
- The case also raises the issue of the power of the multinational over that of the nation state.

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3. *Why is the EU pursuing unpaid taxes from multinational companies and why have they not been successful?*

Both tax deals and tax avoidance strategies are in contravention of EU Regulations on competition and the EU's competition policy. The key point is that tax deals struck with some and not all is a form of unfair competition.

They have not been successful because:

a) It is very difficult to change practices that have operated for many years. Any move to harmonize tax rates and tax practices globally challenges the sovereignty of nation states to manage their own affairs. In any case the needs of each country in terms of tax revenue will vary.
b) Countries may benefit from large multinationals moving into their territory bring with them jobs and various forms of tax revenues. Even low rates of tax negotiated between governments and MNEs can be significant, e.g. Apple in Ireland was the largest corporate taxpayer.
c) The ruling of the EU General Court in favour of Apple has set a precedent for other companies to follow.

4. *Assess the strengths and weaknesses of the OECD tax scheme for MNES to operate from 2023.*

The OECD has pushed for corporate tax reforms for many years. Following the lead given by US President Biden, the OECD proposed that:

- Companies will be taxed in countries in which they operate and will not be able to shift revenues and profits to tax havens.
- There will be a minimum rate of 15%.

The strengths of their proposal are:

- It establishes a level playing field for all countries.
- It addresses the inequities of the current system.
- It has the backing of the major economies and 136 countries in all.

The possible weaknesses of the proposal are:

- Amendments to the current tax laws will have to be passed in each individual country's legislative process. This could be messy and time consuming.
- Policing mechanisms will need to be formed and accepted.
- There may be opposition from those countries whose current rates are less than 15%.
- The case of Apple in the EU Court system does not bode well for a smooth ride.
- 2023 may be a very optimistic start date.

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