

Chapter 3

History and Geography:

THE FOUNDATIONS OF CULTURE



CHAPTER OUTLINE

Global Perspective: Birth of a Nation—Panama in 67 Hours

Historical Perspective in Global Business

History and Contemporary Behavior

History Is Subjective

Manifest Destiny and the Monroe Doctrine

Geography and Global Markets

Climate and Topography

Geography, Nature, and Economic Growth

Social Responsibility and Environmental Management

Resources

Dynamics of Global Population Trends

Controlling Population Growth

Rural/Urban Migration

Population Decline and Aging

Worker Shortage and Immigration

World Trade Routes

Communication Links

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 3:

- LO1** The importance of history and geography in understanding international markets
- LO2** The effects of history on a country's culture
- LO3** How culture interprets events through its own eyes
- LO4** How long-past U.S. international policies still affect customer attitudes abroad
- LO5** The effect of geographic diversity on economic profiles of a country
- LO6** Why marketers need to be responsive to the geography of a country
- LO7** The economic effects of controlling population growth and aging populations
- LO8** Communication infrastructures are an integral part of international commerce

Global Perspective

BIRTH OF A NATION—PANAMA IN 67 HOURS

The Stage Is Set

- June 1902 The United States offers to buy the Panama Canal Zone from Colombia for \$10 million.
- August 1903 The Colombian Senate refuses the offer. Theodore Roosevelt, angered by the refusal, refers to the Colombian Senate as “those contemptible little creatures in Bogotá.” Roosevelt then agrees to a plot, led by secessionist Dr. Manuel Amador, to assist a group planning to secede from Colombia.
- October 17 Panamanian dissidents travel to Washington and agree to stage a U.S.-backed revolution. The revolution is set for November 3 at 6:00 p.m.
- October 18 A flag, constitution, and declaration of independence are created over the weekend. Panama’s first flag was designed and sewn by hand in Highland Falls, New York, using fabric bought at Macy’s.

Philippe Jean Bunau-Varilla, a French engineer associated with the bankrupt French–Panamanian canal construction company and not a permanent resident in Panama, is named Panama’s ambassador to the United States.

A Country Is Born

- Tuesday, November 3 Precisely at 6:00 p.m., the Colombian garrison is bribed to lay down their arms. The revolution begins, the U.S.S. *Nashville* steams into Colón harbor, and the junta proclaims Panama’s independence.
- Friday, November 6 By 1:00 p.m., the United States recognizes the sovereign state of Panama.
- Saturday, November 7 The new government sends an official delegation from Panama to the United States to instruct the Panamanian ambassador to the United States on provisions of the Panama Canal Treaty.

- Wednesday, November 18 At 6:40 p.m., the Panamanian ambassador signs the Panama Canal Treaty. At 11:30 p.m., the official Panamanian delegation arrives at a Washington, DC, railroad station and is met by their ambassador, who informs them that the treaty was signed just hours earlier.

The Present

- 1977 The United States agrees to relinquish control of the Panama Canal Zone on December 31, 1999.
- 1997 Autoridad del Canal de Panama, the canal authority that will assume control from the U.S. Panama Canal Commission, is created.
- 1998 Panama gives a Chinese company the right to build new port facilities on both the Pacific and Atlantic sides, to control anchorages, to hire new pilots to guide ships through the canal, and to block all passage that interferes with the company’s business.
- January 1, 2000 “The canal is ours” is the jubilant cry in Panama.
- January 17, 2000 The Pentagon sees a potential Chinese threat to the Panama Canal.
- July 2002 China pressures Panama to extend diplomatic recognition to China and drop recognition of Taiwan.
- 2005 The Panama Canal is expected to reach maximum capacity by 2010. The administrative board proposes a \$5 billion expansion to add a parallel set of locks in response to the threat of a competing project to build canals or “multimodal” systems across Mexico’s Tehuantepec isthmus. Either expand or “run the risk of eventually becoming just a regional canal.”
- 2010 A project to double the capacity of the canal begins, scheduled to be completed in 2014.

This story is a good illustration of how history and geography can affect public and political attitudes in the present and far into the future. To the Panamanians and much of Latin America, the Panama Canal is but one example of the many U.S. intrusions during the early 20th century that have tainted U.S.–Latin American relations. For the United States, the geographical importance of the Panama Canal for trade (shipping between the two coasts via the canal is cut by 8,000 miles) makes control of the canal a sensitive issue, especially if that control could be potentially hostile. That a Chinese-owned company has operational control of both the Pacific and Atlantic ports and could pose an indirect threat to the Panama Canal Zone concerns the U.S. government. The recent history of U.S. conflict with China and the history of

Western domination of parts of China create in the minds of many an adversarial relationship between the two countries. Furthermore, some wonder if Panama would be reluctant to ask the United States to intervene at some future date, perhaps fearing that the Americans might stay another 98 years. Although the probability of China sabotaging the canal is slim at best, historical baggage makes one wonder what would happen should U.S. relations with China deteriorate to the point that the canal were considered to be in jeopardy.

Sources: Bernard A. Weisberger, “Panama: Made in U.S.A.,” *American Heritage*, November 1989, pp. 24–25; Juanita Darling, “‘The Canal Is Ours’ Is Jubilant Cry in Panama,” *Los Angeles Times*, January 1, 2000, p. A1; C.J. Sechexayder, “Spain–Mexico Team Outbids Panama Canal Competitors,” *Engineering News-Record*, January 4, 2010, p. 11.

LO1

The importance of history and geography in understanding international markets

Here we begin the discussion of the Cultural Environment of Global Markets. *Culture* can be defined as a society’s accepted basis for responding to external and internal events. To understand fully a society’s actions and its points of view, you must have an appreciation for the influence of historical events and the geographical uniqueness to which a culture has had to adapt. To interpret behavior and attitudes in a particular culture or country, a marketer must have some idea of a country’s history and geography.

The goal of this chapter is to introduce the reader to the impact of history and geography on the marketing process. The influence of history on behavior and attitudes and the influence of geography on markets, trade, and environmental issues are examined in particular.

Historical Perspective in Global Business

History helps define a nation’s “mission,” how it perceives its neighbors, how it sees its place in the world, and how it sees itself. Insights into the history of a country are important for understanding attitudes about the role of government and business, the relations between managers and the managed, the sources of management authority, and attitudes toward foreign corporations.

To understand, explain, and appreciate a people’s image of itself and the attitudes and unconscious fears that are reflected in its view of foreign cultures, it is necessary to study the culture as it is now as well as to understand the culture as it was—that is, a country’s history.

History and Contemporary Behavior

LO2

The effects of history on a country’s culture

Most Americans know the most about European history, even though our major trading partners are now to our west and south. Circa 2008, China became a hot topic in the United States. It was back in 1776 as well. In a sense, American history really begins with China. Recall the Boston Tea Party: Our complaint then was the British tax and, more important, the British prohibition against Yankee traders dealing directly with merchants in Canton. So it is worthwhile to dwell for a few moments on a couple of prominent points in the history of the fast burgeoning market that is modern-day China. James Day Hodgson, former U.S. Labor Secretary and Ambassador to Japan, suggests that anyone doing business in another country should understand at least the encyclopedic version of the people’s past as a matter

1000 First millennium ends; Y1K problem overblown—widespread fear of the end of the world proved unfounded

1000 Vikings settle Newfoundland

1004 Chinese unity crumbles with treaty between the Song and the Liao, giving the Liao full autonomy; China will remain fractured until the Mongol invasion in the 13th century (see 1206)

1025 Navy of Cholas in southern India crushes the empire of Srivijaya in modern Myanmar to protect its trade with China

1054 Italy and Egypt formalize commercial relations
1066 William the Conqueror is victorious over Harold II in the Battle of Hastings, establishing Norman rule in England and forever linking the country with the continent

1081 Venice and Byzantium conclude a commercial treaty (renewed in 1126)

1095 First of the crusades begins; Pope Urban II calls on Europe’s noblemen to help the Byzantines repel the Turks; the crusaders’ travel, stories, and goods acquired along the way help increase trade across Europe and with the Mediterranean and Asia; eighth major crusade

ends—Syria expels the Christians

1100 Japan begins to isolate itself from the rest of the world, not really opening up again until the mid-19th century (see 1858)

1100 China invents the mariner’s compass and becomes a force in trade; widespread use of paper money also helps increase trade and prosperity

of politeness, if not persuasion.¹ As important examples we offer a few perhaps surprising glimpses of the past that continues to influence U.S.–Asia trade relations even today.

First Opium War and the Treaty of Nanjing (1839–1842). During the early 1800s, the British taste for tea was creating a huge trade deficit with China. Silver bullion was flowing fast in an easterly direction. Of course, other goods were being traded, too. Exports from China also included sugar, silk, mother-of-pearl, paper, camphor, cassia, copper and alum, lacquer ware, rhubarb, various oils, bamboo, and porcelain. The British “barbarians” returned cotton and woolen textiles, iron, tin, lead, carnelian, diamonds, pepper, betel nuts, pearls, watches and clocks, coral and amber beads, birds’ nests and shark fins, and foodstuffs such as fish and rice. But the tea-for-silver swap dominated the equation.

Then came the English East India Company’s epiphany: opium. Easy to ship, high value to volume and weight ratios, and addicting to customers—what a great product! At the time, the best opium came from British India, and once the full flow began, the tea-caused trade deficit disappeared fast. The Emperor complained and issued edicts, but the opium trade burgeoned. One of the taller skyscrapers in Hong Kong today is the Jardine-Matheson Trading House.² Its circular windows are reminiscent of the portholes of its clipper-ship beginnings in the opium trade.

In 1836 some high-ranking Chinese officials advocated legalizing opium. The foreign suppliers boosted production and shipments in anticipation of exploding sales. Then the Emperor went the opposite direction and ordered the destruction of the inventories in Canton (now known as Guangzhou). By 1839 the trade was dead. The British responded by sinking junks in the Pearl River and blockading all Chinese ports.

The “magically accurate” British cannon pointed at Nanjing yielded negotiations there in 1842. The Chinese ceded Hong Kong and \$21 million pounds to the British. Ports at Xiamen, Fuzhou, Ningbo, and Shanghai were opened to trade and settlement by foreigners. Hong Kong thus became the gateway to a xenophobic China, particularly for the past 50 years. Perhaps most important, China recognized for the first time its loss of great power status.

Ultimately the Opium War became about foreign access to Chinese trade, and the treaty of Nanjing really didn’t settle the issue. A second Opium War was fought between 1857 and 1860. In that imbroglio, British and French forces combined to destroy the summer palace in Beijing. Such new humiliations yielded more freedoms for foreign traders; notably, the treaty specifically included provisions allowing Christian evangelism throughout the realm.

Taiping Rebellion (1851–1864). One consequence of the humiliation at the hands of foreigners was a loss of confidence in the Chinese government. The resulting disorder came to a head in Guangxi, the southernmost province of the Empire. The leader of the uprising was a peasant who grew up near Guangzhou. Hong Xiuquan aspired to be a

¹James Day Hodgson, Yoshihiro Sano, and John L. Graham, *Doing Business in the New Japan, Succeeding in America’s Richest Foreign Market* (Latham, MD: Rowman & Littlefield, 2008).

²In a very interesting paper, the authors argue that choices made by Jardine’s and Swire’s (trading houses) in Asia today, for example, are an outgrowth of strategic choices first in evidence more than a century ago! See Geoffrey Jones and Tarun Khanna, “Bringing History (Back) into International Business,” *Journal of International Business Studies* 37 (2006), pp. 453–68.

1100 Inca Empire in the Andes begins to develop, eventually encompassing about 12 million people until its destruction by the Spanish in 1553; cities specialize in certain farming and trade with others for what they don’t make
1132 Corporate towns in France grant charters by Henry I to protect commerce

1189 German merchants conclude treaty with Novgorod in Russia
1200 Islam is introduced by spice traders to Southeast Asia
1200 More than 60,000 Italian merchants work and live in Constantinople
1206 Genghis Khan becomes the Great Khan, controlling most of northern China; after his death in 1227, the Khan

clan conquers much of Asia by midcentury and promotes trade and commerce, reviving the ancient Silk Road that linked Chinese and Western traders
1215 The Magna Carta, a pact between the English king and his subjects, is signed by King John, who becomes subject to the rule of law

1229 German merchants sign trade treaty with the Prince of Smolensk in Russia
1252 First gold coins issued in the West since the fall of Rome, in Florence
1269 England institutes toll roads
1270 Venetian Marco Polo and his father travel through Asia and the Middle East, becoming the first European

civil servant but failed the required Confucian teachings–based exam. When in Guangzhou for his second try at the exam, he came in contact with Protestant Western missionaries and later began to have visions of God.

After flunking the exam for a fourth time in 1843, he began to evangelize, presenting himself as Christ’s brother. In the next seven years, he attracted 10,000 followers. In 1851, he was crowned by his followers as the “Heavenly King” of the “Heavenly Kingdom of Peace.” Despite their adopted label, they revolted, cut off their pigtailed in defiance of the ruling Manchus, and began to march north. With the fervor of the religious zealots they were, they fought their way through the capital at Nanjing and almost to Tianjing by 1855.

But then things started to unravel. Chinese opposition forces organized. Because foreigners appreciated neither Hong’s interpretation of the scriptures, nor his 88 concubines, nor his attacks on Shanghai, they formed another army against him. Hong took his own life just before the final defeat and the recapture of Nanjing.

Estimates of the death toll from the Taiping Rebellion stand between 20 and 40 million people. We repeat: 20–40 million Chinese lives were lost. By contrast, “only” 2 million were killed in the 1949 Communist Revolution. The Taiping Rebellion is the single most horrific civil war in the history of the world. Surely Hong Xiuquan was insane. Other rebellions also occurred in China during this time; the Muslim one in the northwest is most notable (1862–78). However, based on these events in the mid-1800s, it is easy to see why the Chinese leadership has remained wary of foreign influences in general, and religious movements in particular, even today.³

History and Japan. Trade with Japan was a hot topic in the United States in both the 1850s and the 1980s. Likewise, unless you have a historical sense of the many changes that have buffeted Japan—seven centuries under the shogun feudal system, the isolation before the arrival of Commodore Perry in 1853, the threat of domination by colonial powers, the rise of new social classes, Western influences, the humiliation of World War II, and involvement in the international community—you will have difficulty fully understanding its contemporary behavior. Why do the Japanese have such strong loyalty toward their companies? Why is the loyalty found among participants in the Japanese distribution systems so difficult for an outsider to develop? Why are decisions made by consensus? Answers to such questions can be explained in part by Japanese history (and geography).

Loyalty to family, to country, to company, and to social groups and the strong drive to cooperate, to work together for a common cause, permeate many facets of Japanese behavior and have historical roots that date back thousands of years. Historically, loyalty and service, a sense of responsibility, and respect for discipline, training, and artistry were stressed to maintain stability and order. **Confucian philosophy**, taught throughout Japan’s history, emphasizes the basic virtue of loyalty “of friend to friend, of wife to husband, of child to parent, of brother to brother, but, above all, of subject to lord,” that is, to country.

³N. Mark Lam and John L. Graham, *Doing Business in China Now, the World’s Most Dynamic Marketplace* (New York: McGraw-Hill, 2007).

traders to establish extensive links with the region

1279 Kublai Khan unites China and creates the Yuan (Origin) dynasty; by the time he dies in 1294, he has created a unified Mongol Empire extending from China to eastern Europe

1300 The early stirrings of the Renaissance begin in Europe as people are exposed to other cultures, primarily through merchants and trade; trade fairs are held in numerous European cities

1315 A great famine hits Europe, lasting two years, more widespread and longer than any before

1348 The Plague (the Black Death) kills one-fourth to one-third of the population in Europe (25 million people) in just three years, disrupting trade as cities try to prevent the spread of the disease by restricting visitors; it likely started in Asia in the 1320s; massive inflation took hold, because goods could only be obtained

locally; serfs were in high demand and began moving to higher wage payers, forever altering Europe’s labor landscape

1358 German Hanseatic League officially forms by the Hansa companies of merchants for trade and mutual protection, eventually encompassing more than 70 cities and lasting nearly 300 years

1375 Timur Lang the Turk conquers lands from Moscow to Delhi

1381 English rioters kill foreign Flemish traders as part of the 100,000-strong peasant rebellion against Richard II, which was led by Wat Tyler in a failed attempt to throw off the yoke of feudalism

1392 England prohibits foreigners from retailing goods in the country

1400 Koreans develop movable-type printing (see 1450)

A fundamental premise of Japanese ideology reflects the importance of cooperation for the collective good. Japanese achieve consensus by agreeing that all will unite against outside pressures that threaten the collective good. A historical perspective gives the foreigner in Japan a basis on which to begin developing cultural sensitivity and a better understanding of contemporary Japanese behavior.

History Is Subjective

LO3

How culture interprets events through its own eyes

History is important in understanding why a country behaves as it does, but history from whose viewpoint? Historical events always are viewed from one's own biases and self-reference criteria (SRC), and thus, what is recorded by one historian may not be what another records, especially if the historians are from different cultures. Historians traditionally try to be objective, but few can help filtering events through their own cultural biases.⁴

Our perspective not only influences our view of history but also subtly influences our view of many other matters. For example, maps of the world sold in the United States generally show the United States at the center, whereas maps in Britain show Britain at the center, and so on for other nations.

A crucial element in understanding any nation's business and political culture is the subjective perception of its history. Why do Mexicans have a love-hate relationship with the United States? Why were Mexicans required to have majority ownership in most foreign investments until recently? Why did dictator General Porfirio Díaz lament, "Poor Mexico, so far from God, so near the United States"? Why? Because Mexicans see the United States as a threat to their political, economic, and cultural sovereignty.

Most citizens of the United States are mystified by such feelings. After all, the United States has always been Mexico's good neighbor. Most would agree with President John F. Kennedy's proclamation during a visit to Mexico that "Geography has made us neighbors, tradition has made us friends." North Americans may be surprised to learn that most Mexicans "felt it more accurate to say 'Geography has made us closer, tradition has made us far apart.'"⁵

Citizens of the United States feel they have been good neighbors. They see the Monroe Doctrine as protection for Latin America from European colonization and the intervention of Europe in the governments of the Western Hemisphere. Latin Americans, in contrast, tend to see the Monroe Doctrine as an offensive expression of U.S. influence in Latin America. To put it another way, "Europe keep your hands off—Latin America is only for the United States," an attitude perhaps typified by former U.S. President Ulysses S. Grant, who, in a speech in Mexico in 1880, described Mexico as a "magnificent mine" that lay waiting south of the border for North American interests.

United States Marines sing with pride of their exploits "from the halls of Montezuma to the shores of Tripoli." To the Mexican, the exploit to which the "halls of Montezuma"

⁴An example of such biases is the differing perceptions of Turkey by European Union members in deciding on Turkey's membership in the EU. See "Which Turkey?" *The Economist*, March 17, 2005.

⁵For an insightful review of some of the issues that have affected relations between the United States and Mexico, see John Skirius, "Railroad, Oil and Other Foreign Interest in the Mexican Revolution, 1911–1914," *Journal of Latin American Studies*, February 2003, p. 25.

1404 Chinese prohibit private trading in foreign countries, but foreign ships may trade in China with official permission

1415 Chinese begin significant trading with Africa through government expeditions—some believe they sailed to North America as well in 1421

1425 Hanseatic city of Brugge becomes the first Atlantic seaport to be a major trading center

1427 Aztec Empire is created by Itzcoatl; it will encompass about 6 million people before its destruction in 1519

1430 Portuguese Prince Henry the Navigator explores west African coast to promote trade

1441 Mayan Empire collapses as the city of Mayapán is destroyed in a revolt

1450 Renaissance takes hold in Florence, its traditional birthplace

1450 Gutenberg Bible is first book printed with movable type; the ability to mass produce books creates an information revolution

1453 Byzantine Empire is destroyed as Muhammad II sacks Constantinople (renaming it Istanbul)

1464 French royal mail service established by Louis XI

1470 Early trademark piracy committed by Persians

who copy mass-produced Chinese porcelain to capitalize on its popularity in foreign countries

1479 Under the Treaty of Constantinople, in exchange for trading rights in the Black Sea, Venice agrees to pay tribute to the Ottoman Empire

1482 English organize a postal system that features fresh relays of horses every 20 miles

The Monumento de Los Niños Heroes honors six young cadets who, during the Mexican–American War of 1847, chose death over surrender. The Mexican–American War is important in Mexican history and helps explain, in part, Mexico’s love–hate relationship with the United States. (© Dave G. Houser/Corbis)



refers is remembered as U.S. troops marching all the way to the center of Mexico City and extracting as tribute 890,000 square miles that became Arizona, California, New Mexico, and Texas (see Exhibit 3.1). A prominent monument at the entrance of Chapultepec Park recognizes *Los Niños Heroes* (the boy heroes), who resisted U.S. troops, wrapped themselves in Mexican flags, and jumped to their deaths rather than surrender. Mexicans recount the heroism of *Los Niños Heroes*⁶ and the loss of Mexican territory to the United States every September 13, when the president of Mexico, the cabinet, and the diplomatic corps assemble at the Mexico City fortress to recall the defeat that led to the “*despojo territorial*” (territorial plunder).

The Mexican Revolution, which overthrew the dictator Díaz and launched the modern Mexican state, is particularly remembered for the expulsion of foreigners—most notably North American businessmen who were the most visible of the wealthy and influential entrepreneurs in Mexico.

⁶When the United Nations recommended that all countries set aside a single day each year to honor children, Mexico designated April 30 as “Día de Los Niños.” Interestingly, this holiday often coincides with Saint Patrick’s Day celebrations, which include recognition of the San Patricios, the Irish-American battalion that fought with the Mexicans in the Mexican–American War. See Carol Sowers, “El Día de Los Niños Adds International Touch to Celebration,” *Arizona Republic*, April 29, 2005.

1488 Bartolomeu Dias sails around the coast of Africa; this, along with the voyages of Christopher Columbus, ushers in the era of sea travel
1492 Christopher Columbus “discovers” the New World
1494 Portugal and Spain divide the unexplored world between them with the Treaty of Tordesillas
1500 Rise of mercantilism, the accumulation of wealth by the state to increase power, in western Europe; states without gold or silver mines try to control

trade to maintain a surplus and accumulate gold and silver; Englishman Thomas Mun was one of the great proponents in 1600, who realized that the overall balance of trade was the important factor, not whether each individual trade resulted in a surplus
1500 Slave trade becomes a major component of commerce
1504 Regular postal service established among Vienna, Brussels, and Madrid
1520 First chocolate brought from Mexico to Spain

1521 Mexico is conquered by Hernán Cortés after Aztec ruler Montezuma is accidentally killed
1522 Magellan’s expedition completes its three-year sail around the world; it is the first successful circumnavigation
1531 Antwerp stock exchange is the first exchange to move into its own building, signifying its importance in financing commercial enterprises throughout Europe and the rising importance of private

trade and commerce; Antwerp emerges as a trading capital
1532 Brazil is colonized by the Portuguese
1534 English break from the Catholic Church, ending its dominance of politics and trade throughout Europe, as Henry VIII creates the Church of England
1553 South American Incan Empire ends with conquest by Spanish; the Incas had created an extensive area of trade, complete with an infrastructure of roads and canals

Exhibit 3.1**Territorial Expansion of United States from 1783**

The United States expanded westward to the Pacific through a series of financial deals, negotiated settlements, and forcible annexations. The acquisition of territory from Mexico began with the Battle of San Jacinto in 1836, when Texas staged a successful revolt against the rule of Mexico and became The Republic of Texas—later to join the Union in 1845. The Mexican War (1846–1848) resulted in Mexico ceding California and a large part of the West to the United States.

Source: From Oxford Atlas of the World, 10th ed., 2002. Reprinted with permission of Philip Maps.

**Manifest Destiny and the Monroe Doctrine**

Manifest Destiny and the Monroe Doctrine were accepted as the basis for U.S. foreign policy during much of the 19th and 20th centuries.⁷ Manifest Destiny, in its broadest interpretation, meant that Americans were a chosen people ordained by God to create a model society. More specifically, it referred to the territorial expansion of the United States from the Atlantic to the Pacific. The idea of Manifest Destiny was used to justify the U.S. annexation of Texas, Oregon, New Mexico, and California and, later, U.S. involvement in Cuba, Alaska, Hawaii, and the Philippines. Exhibit 3.1 illustrates when and by what means the present United States was acquired.

The **Monroe Doctrine**, a cornerstone of early U.S. foreign policy, was enunciated by President James Monroe in a public statement proclaiming three basic dicta: no further European colonization in the New World, abstention of the United States from European

⁷Some say even into the 21st century. See “Manifest Destiny Warmed Up?” *The Economist*, August 14, 2003. Of course, others disagree. See Joseph Contreras, “Roll Over Monroe: The Influence the United States Once Claimed as a Divine Right in Latin America is Slipping away Fast,” *Newsweek International*, December 10, 2007.

1555 Tobacco trade begins after its introduction to Europe by Spanish and Portuguese traders

1557 Spanish crown suffers first of numerous bankruptcies, discouraging cross-border lending

1561 Via Dutch traders, tulips come to Europe from Near East for first time

1564 William Shakespeare is born; many of his plays are stories of merchant traders

1567 Typhoid fever, imported from Europe, kills two million Indians in South America

1588 Spanish Armada defeated by British, heralding Britain's emergence as the world's greatest naval power; this power will enable Britain to colonize many regions of the globe and lead to its becoming the world's commercially dominant power for the next 300 years

1596 First flush toilet is developed for Britain's Queen Elizabeth I

1597 Holy Roman Empire expels English merchants in retaliation for English treatment of Hanseatic League

1600 Potatoes are brought from South America to Europe, where they quickly spread to the rest of world and become a staple of agricultural production

1600 Japan begins trading silver for foreign goods

1600 Britain's Queen Elizabeth I grants charter to the East India Company, which will dominate trade with the East until its demise in 1857

1601 France makes postal agreements with neighboring states

1602 Dutch charter their own East India Company, which will dominate the South Asian coffee and spice trade

1607 British colony of Jamestown built

political affairs, and nonintervention by European governments in the governments of the Western Hemisphere.

After 1870, interpretation of the Monroe Doctrine became increasingly broad. In 1881, its principles were evoked in discussing the development of a canal across the Isthmus of Panama. Theodore Roosevelt applied the Monroe Doctrine with an extension that became known as the **Roosevelt Corollary**. The corollary stated that not only would the United States prohibit non-American intervention in Latin American affairs, but it would also police the area and guarantee that Latin American nations met their international obligations. The corollary sanctioning American intervention was applied in 1905 when Roosevelt forced the Dominican Republic to accept the appointment of an American economic adviser, who quickly became the financial director of the small state. It was also used in the acquisition of the Panama Canal Zone from Colombia in 1903 and the formation of a provisional government in Cuba in 1906.

The manner in which the United States acquired the land for the Panama Canal Zone typifies the Roosevelt Corollary—whatever is good for the United States is justifiable. As the Global Perspective at the beginning of this chapter illustrates, the creation of the country of Panama was a total fabrication of the United States.⁸

According to U.S. history, these Latin American adventures were a justifiable part of our foreign policy; to Latin Americans, they were unwelcome intrusions in Latin American affairs. This perspective has been constantly reinforced by U.S. intervention in Latin America since 1945 (see Exhibit 3.2). The way historical events are recorded and interpreted in one culture can differ substantially from the way those same events are recorded and interpreted in another. From the U.S. view, each of the interventions illustrated in Exhibit 3.2 was justified. A comparison of histories goes a long way in explaining the differences in outlooks and behavior of people on both sides of the border. Many Mexicans believe that their “good neighbor” to the north is not reluctant to throw its weight around when it wants something. Suspicions that self-interest is the primary motivation for good relations with Mexico abound.⁹

History viewed from a Latin American perspective explains how a national leader, under adverse economic conditions, can point a finger at the United States or a U.S. multinational corporation and evoke a special emotional, popular reaction to divert attention away from the government in power. As a case in point, after the U.S. House of Representatives voted to censure Mexico for drug corruption, President Ernesto Zedillo came under pressure to

LO4

How long-past U.S. international policies still affect customer attitudes abroad

⁸For an interesting discussion of how past U.S. foreign interventions affect attitudes about U.S. involvement in Iraq, see “Anti-Americanism: The View from Abroad,” *The Economist*, February 17, 2005.

⁹Many Latin Americans’ elation with the Bush administration’s first-term pronouncements that the United States was looking south “not as an afterthought but as a fundamental commitment”—that a region “too often separated by history or rivalry and resentment” should prepare itself for the start of a “new era” of cooperation—soon became disappointment as the war on terror turned U.S. attention away from Latin America. Marcela Sanchez, “Bush, Looking Every Which Way but South,” *Washington Post*, January 6, 2005.

1609 Dutch begin fur trade through Manhattan
1611 Japan gives Dutch limited permission to trade
1612 British East India Company builds its first factory in India
1620 Mayflower sails for the New World
1620 Father of the Scientific Revolution, Francis Bacon, publishes *Novum Organum*, promoting inductive reasoning

through experimentation and observation
1625 Dutch jurist Hugo Grotius, sometimes called the father of international law, publishes *On the Laws of War and Peace*
1636 Harvard University founded
1637 Dutch “tulip mania” results in history’s first boom-bust market crash
1651 English pass first of so-called Navigation Acts to restrict Dutch trade by forcing

colonies to trade only with English ships
1654 Spain and Germany develop hereditary land rights, a concept that will help lead to the creation of great wealth in single families and thus to the development of private commercial empires
1687 Apple falling on Newton’s head leads to his publication of the law of gravity
1694 The Bank of England is established; it offers loans to

private individuals at 8 percent interest
1698 First steam engine is invented
1719 French consolidate their trade in Asia into one company, the French East India Company; rival British East India Company maintains its grip on the region’s trade, however, and French revert to individual company trading 60 years later

Exhibit 3.2**U.S. Intervention in Latin America Since 1945**

Source: From Oxford Atlas of the World, 10th ed., 2002. Reprinted with permission of Philips Maps.

take a hard stand with Washington. He used the anniversary of Mexico's 1938 expropriation of the oil industry from foreign companies to launch a strong nationalist attack. He praised the state oil monopoly Pemex as a "symbol of our historical struggles for sovereignty." Union members cheered him on, waving a huge banner that read: "In 1938 Mexico was 'decertified' because it expropriated its oil and it won—today we were decertified for defending our dignity and sovereignty." Apparently Venezuelan President Hugo Chavez was listening, based on his more recent nationalization of foreign oil company assets in the Orinoco River Basin¹⁰ and his recent renaming of the country the Bolivarian Republic of Venezuela.¹¹

¹⁰"Venezuela: Spirit of the Monroe Doctrine," *Washington Times*, June 10, 2007, p. B5; Brian Ellsworth, "Oil at \$100, Venezuela's Chavez Faces Industry Slump," *Reuters*, January 4, 2008.

¹¹"Venezuela: Chavez's New Currency Targets Inflation," *Tulsa World*, January 1, 2008, p. A6.

1725 Rise of Physiocrats, followers of the economic philosopher François Quesnay, who believed that production, not trade, created wealth and that natural law should rule, which meant producers should be able to exchange goods freely; movement influenced Adam Smith's ideas promoting free trade

1740 Maria Theresa becomes empress of the Holy Roman Empire (until 1780); she ends

serfdom and strengthens the power of the state

1748 First modern, scientifically drawn map, the *Carte Géométrique de la France*, comprising 182 sheets, was authorized and subsequently drawn by the French Academy; Louis XV proclaimed that the new map, with more accurate data, lost more territory than his wars of conquest had gained

1750 Benjamin Franklin shows that lightning is a form of elec-

tricity by conducting it through the wet string of a kite

1750 Industrial Revolution begins and takes off with the manufacture, in 1780, of the steam engine to drive machines—increased productivity and consumption follow (as do poor working conditions and increased hardships for workers)

1760 Chinese begin strict regulation of foreign trade to last nearly a century when they permit Europeans

to do business only in a small area outside Canton and only with appointed Chinese traders

1764 British victories in India begin Britain's dominance of India, Eastern trade, and trade routes

1764 British begin numbering houses, making mail delivery more efficient and providing the means for the development of direct mail merchants centuries later

CROSSING BORDERS 3.1

Microsoft Adapts Encarta to “Local History”

Adapting to the local culture is an important aspect of strategy for many products. Understanding a country's history helps achieve that goal. Microsoft has nine different editions reflecting local “history” to be sure that its Encarta multimedia encyclopedia on CD-ROM does not contain cultural blunders. As a consequence, it often reflects different and sometimes contradictory understandings of the same historical events. For example, who invented the telephone? In the U.S., U.K., and German editions, it is Alexander Graham Bell, but ask the question in the Italian edition, and your answer is Antonio Meucci, an Italian-American candle maker whom Italians believe beat Bell by five years. For electric light bulbs, it is Thomas Alva Edison in the United States, but in the United Kingdom, it is the British inventor Joseph Swan. Other historical events reflect local perceptions. The nationalization of the Suez Canal, for example, in the U.S. edition is a decisive intervention by superpowers. In the French and U.K. editions, it is summed up as a “humiliating reversal” for Britain and France—a phrase that does not appear in the U.S. edition.

Although Microsoft is on the mark by adapting these events to their local historical context, it has, on occasion, missed the boat on geography. South Korean ire was raised when the South Korean island of Ullung-do was placed within Japan's borders and when the Chon-Ji

Lake, where the first Korean is said to have descended from heaven, was located in China. And finally, an embarrassed Microsoft apologized to the people of Thailand for referring to Bangkok as a commercial sex center, assuring the women's activists group that protested that the revised version would “include all the great content that best reflects its rich culture and history.”

Microsoft also bows to political pressure. The government of Turkey stopped distribution of an Encarta edition with the name Kurdistan used to denote a region of southeastern Turkey on a map. Hence Microsoft removed the name Kurdistan from the map. Governments frequently lobby the company to show their preferred boundaries on maps. When the border between Chile and Argentina in the southern Andes was in dispute, both countries lobbied for their preferred boundary, and the solution both countries agreed to was—no line.

But our fun stories about changes to Encarta must come to an end, because the online encyclopedia has itself become a topic of history. Microsoft folded the entire Encarta operation without explanation in 2009; most analysts agree Wikipedia simply did it in.

Sources: Kevin J. Delaney, “Microsoft's Encarta Has Different Facts for Different Folks,” *The Wall Street Journal*, June 25, 1999, p. A1; “Why You Won't Find Kurdistan on a Microsoft Map of Turkey,” *Geographical*, November 1, 2004; Nick Winfield, “Microsoft to Shut Encarta as Free Sites Alter Market,” *The Wall Street Journal*, March 31, 2009, p. B3.

These leaders might be cheered for **expropriation** or confiscation of foreign investments, even though the investments were making important contributions to their economies. To understand a country's attitudes, prejudices, and fears, it is necessary to look beyond the surface of current events to the inner subtleties of the country's entire past for clues. Three comments by Mexicans best summarize this section:

History is taught one way in Mexico and another way in the United States—the United States robbed us but we are portrayed in U.S. textbooks as bandits who invaded Texas.

We may not like gringos for historical reasons, but today the world is dividing into commercial blocks, and we are handcuffed to each other for better or worse.

We always have been and we continue to be a colony of the United States.

1773 Boston Tea Party symbolizes start of American Revolution; impetus comes from American merchants trying to take control of distribution of goods that were being controlled exclusively by Britain

1776 American Declaration of Independence proclaims the colonies' rights to determine their own destiny,

particularly their own economic destiny

1776 Theory of modern capitalism and free trade expressed by Adam Smith in *The Wealth of Nations*; he theorized that countries would only produce and export goods that they were able to produce more cheaply than could trading partners; he demonstrates that mercantilists were wrong: It

is not gold or silver that will enhance the state, but the material that can be purchased with it

1783 Treaty of Paris officially ends the American Revolution following British surrender to American troops at Yorktown in 1781

1787 U.S. Constitution approved; it becomes a model document for constitutions for

at least the next two centuries; written constitutions will help stabilize many countries and encourage foreign investment and trade with them

1789 French Revolution begins; it will alter the power structure in Europe and help lead to the introduction of laws protecting the individual and to limited democracy in the region

Geography and Global Markets Geography, the study of Earth's surface, climate, continents, countries, peoples, industries, and resources, is an element of the uncontrollable environment that confronts every marketer but that receives scant attention.¹² The tendency is to study the aspects of geography as isolated entities rather than as important causal agents of the marketing environment. Geography is much more than memorizing countries, capitals, and rivers. It also includes an understanding of how a society's culture and economy are affected as a nation struggles to supply its people's needs within the limits imposed by its physical makeup. Thus, the study of geography is important in the evaluation of markets and their environment.

LO5

The effect of geographic diversity on economic profiles of a country

This section discusses the important geographic characteristics a marketer needs to consider when assessing the environmental aspects of marketing. Examining the world as a whole provides the reader with a broad view of world markets and an awareness of the effects of geographic diversity on the economic profiles of various nations. Climate and topography are examined as facets of the broader and more important elements of geography. A brief look at Earth's resources and population—the building blocks of world markets—completes the presentation on geography and global markets.

Climate and Topography

Altitude, humidity, and temperature extremes are climatic features that affect the uses and functions of products and equipment. Products that perform well in temperate zones may deteriorate rapidly or require special cooling or lubrication to function adequately in tropical zones. Manufacturers have found that construction equipment used in the United States requires extensive modifications to cope with the intense heat and dust of the Sahara Desert. A Taiwanese company sent a shipment of drinking glasses to a buyer in the Middle East. The glasses were packed in wooden crates with hay used as dunnage to prevent breakage. The glasses arrived in shards. Why? When the crates moved to the warmer, less humid climate of the Middle East, the moisture content of the hay dropped significantly and shriveled to a point that it offered no protection.

LO6

Why marketers need to be responsive to the geography of a country

Within even a single national market, climate can be sufficiently diverse to require major adjustments. In Ghana, a product adaptable to the entire market must operate effectively in extreme desert heat and low humidity and in tropical rainforests with consistently high humidity. Bosch-Siemens washing machines designed for European countries require spin cycles to range from a minimum spin cycle of 500 rpm to a maximum of 1,600 rpm: Because the sun does not shine regularly in Germany or in Scandinavia, washing machines must have a 1,600 rpm spin cycle because users do not have the luxury of hanging them out to dry. In Italy and Spain, however, clothes can be damp, because the abundant sunshine is sufficient to justify a spin cycle speed of 500 rpm.

Different seasons between the northern and southern hemispheres also affect global strategies. JCPenney had planned to open five stores in Chile as part of its expansion into countries below the equator. It wanted to capitalize on its vast bulk buying might for its North American, Mexican, and Brazilian stores to provide low prices for its expansion into South America. After opening its first store in Chile, the company realized that the plan was

¹²The importance of geography in understanding global challenges that exist today is discussed in Harm J. DeBlij, *Why Geography Matters* (New York: Oxford University Press, 2005).

1792 Gas lighting introduced; within three decades, most major European and U.S. cities will use gas lights

1804 Steam locomotive introduced; it will become the dominant form of transport of goods and people until the 20th century, when trucks and airplanes become commercially viable

1804 Napoleon crowns himself emperor, overthrowing the French revolutionary government, and tries to conquer Europe (after already occupying Egypt as a means of cutting off British trade with the East), the failure of which results in the redrawing of national boundaries in Europe and Latin America

1807 Robert Fulton's steamboat is the first to usher in a new age of transport when his *Clermont* sails from New York to Albany

1807 French Napoleonic Code issued and eventually becomes a model of civil law adopted by many nations around the world

1807 U.S. President Thomas Jefferson bans trade with Europe in an effort to convince warring British and French ships to leave neutral U.S. trading ships alone

1810 Frenchman Nicolas Appert successfully cans food and prevents spoilage

CROSSING BORDERS 3.2

Innovation and the Water Shortage, from Fog to Kid Power

When you live in Chungungo, Chile, one of the country's most arid regions with no nearby source of water, you drink fog. Of course! Thanks to a legend and resourceful Canadian and Chilean scientists, Chungungo now has its own supply of drinkable water after a 20-year drought. Before this new source of water, Chungungo depended on water trucks that came twice a week.

Chungungo has always been an arid area, and legend has it that the region's original inhabitants used to worship trees. They considered them sacred because a permanent flow of water sprang from the treetops, producing a constant interior rain. The legend was right—the trees produced rain! Thick fog forms along the coast. As it moves inland and is forced to rise against the hills, it changes into tiny raindrops, which are in turn retained by the tree leaves, producing the constant source of rain. Scientists set out to take advantage of this natural phenomenon.

The nearby ancient eucalyptus forest of El Tofo Hill provided the clue that scientists needed to create an ingenious water-supply system. To duplicate the water-bearing effect of the trees, they installed 86 "fog catchers" on the top of the hill—huge nets supported by 12-foot eucalyptus pillars, with water containers at their

base. About 1,900 gallons of water are collected each day and then piped into town. This small-scale system is cheap (about one-fifth as expensive as having water trucked in), clean, and provides the local people with a steady supply of drinking water.

In sub-Saharan Africa, inventive folks have come up with a new way to bring water up from wells. A life-changing and life-saving invention—the PlayPump water system—provides easy access to clean drinking water, brings joy to children, and leads to improvements in health, education, gender equality, and economic development in more than 1,000 rural villages in South Africa, Swaziland, Mozambique, and Zambia. The PlayPump systems are innovative, sustainable, patented water pumps powered by children at play. Installed near schools, the PlayPump system doubles as a water pump and a merry-go-round. The PlayPump system also provides one of the only ways to reach rural and peri-urban communities with potentially life-saving public health messages. Please see the accompanying pictures of a new solution to one of humankind's oldest problems.

Sources: "Drinking Fog," *World Press Review*; "Silver Lining," *The Economist*, February 5, 2000, p. 75; "UNESCO Water Portal Weekly Update No. 89: Fog," April 15, 2005, <http://www.unesco.org/water/news/newsletter/89.shtml>; <http://www.playpumps.org>, 2008; Aliah D. Wright, "Dive into Clean Water," *HRMagazine* 54, no. 6 (2009), p. 4

not going to work—when it was buying winter merchandise in North America, it needed summer merchandise in South America. The company quickly sold its one store in Chile; its expansion into South America was limited to Brazil.¹³

Mountains, oceans, seas, jungles, and other geographical features can pose serious impediments to economic growth and trade. For example, mountain ranges cover South America's west coast for 4,500 miles, with an average height of 13,000 feet and a width of 300 to 400 miles. This natural, formidable barrier has precluded the establishment of commercial routes between the Pacific and Atlantic coasts. South America's natural barriers inhibit both national and regional growth, trade, and communication. Geographic hurdles have a direct effect on a country's economy, markets, and the related activities of

¹³Miriam Jordan, "Penney Blends Two Business Cultures," *The Wall Street Journal*, April 5, 2001.

1810 Following Napoleon's invasion of Spain and Portugal, Simón Bolívar begins wars of independence for Spanish colonies in Latin America, leading to new governments in Bolivia, Columbia, Ecuador, Peru, and Venezuela

1814 First practical steam locomotive is built by George Stephenson in England, leading to the birth of railroad transportation

in 1825 with the first train carrying 450 passengers at 15 miles per hour

1815 Napoleon defeated at Battle of Waterloo and gives up throne days later

1815 British build roads of crushed stone, greatly improving the quality and speed of road travel

1817 David Ricardo publishes *Principles of Political Economy and Taxation*, in which he

proposes modern trade theory: Comparative advantage drives trade; countries will produce and export goods for which they have a comparative advantage as opposed to Adam Smith's absolute advantage (see 1776)

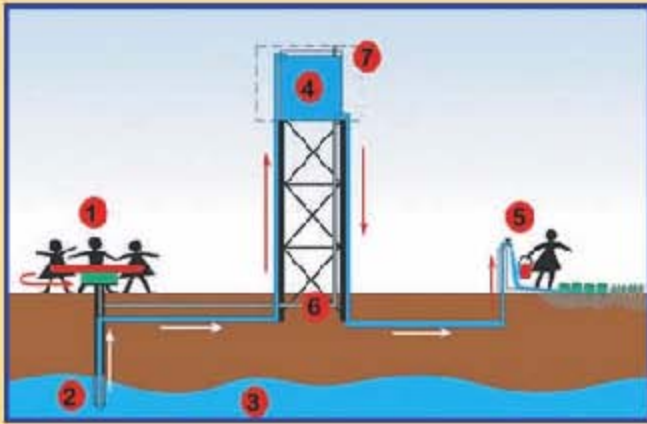
1821 Britain is first to adopt gold standard to back the value of its currency

1823 U.S. President James Monroe promulgates the doctrine bearing his name that

declares the Americas closed to colonization in an attempt to assert U.S. influence over the region

1837 Reign of Britain's Queen Victoria begins; she oversees the growth of the British Empire and Britain's emergence as an industrial power (she dies in 1901)

1837 Electronic telegraph begins wide commercial use, transmitting information, including production orders, swiftly



While children have fun spinning on the PlayPump merry-go-round, (1) clean water is pumped (2) from underground (3) into a 2,500-liter tank, (4) standing seven meters above the ground. A simple tap (5) makes it easy for adults and children to draw water. Excess water is diverted from the storage tank back down into the base hole (6). The water storage tank (7) provides rare opportunities to advertise to outlying communities. All four sides of the tank are leased as billboards, with two sides for consumer advertising and the other two sides for health and educational messages. The revenue generated from this unique model pays for pump maintenance. Capable of producing up to 1,400 liters of water per hour at 16 rpm from a depth of 40 meters, it is effective up to a depth of 100 meters. See <http://www.playpumps.org>. (right: © Frimmel Smith/PlayPump)

communication and distribution in China, Russia, India, and Canada as well. As countries seek economic opportunities and the challenges of the global marketplace, they invest in infrastructure to overcome such barriers. Once seen as natural protection from potentially hostile neighbors, physical barriers that exist within Europe are now seen as impediments to efficient trade in an integrated economic union.

For decades the British resisted a tunnel under the English Channel—they did not trust the French or any other European country and saw the channel as protection. But when they became members of the European Union, economic reality meant the channel tunnel had to be built to facilitate trade with other EU members. Now you can take a bullet train through the Chunnel, but even a decade after it opened, its finances are still a bit shaky,¹⁴ and recently, undocumented workers have tried to walk the underwater route to reach England.¹⁵

¹⁴Robert Lea, "Chunnel Rail Link Firm Heads for a Multi-Billion Break-Up," *Evening Standard*, November 1, 2007, p. 28.

¹⁵"Illegals in the Chunnel," *Daily Express*, January 4, 2008, p. 39.

1839 Process for recording negative images on paper is introduced in England, the precursor to modern film technology

1841 Briton David Livingstone begins 30 years of exploring in Africa

1842 Hong Kong ceded to Britain with the Treaty of Nanjing following the Opium War; the city will become a financial and trading center for Asia

1844 Chinese open five ports to U.S. ships

1847 First government-backed postage stamps issued by United States, leading to more certain and efficient communication by post

1848 John Stuart Mill publishes *Principles of Political Economy*, completing the modern theory of trade by stating that gains

from trade are reflected in the strength of the reciprocal demand for imports and exports and that gains would come from better terms of trade (see 1817)

1848 The Communist Manifesto, by Germans Karl Marx and Friedrich Engels, is issued; it will become the basis for the communist movements of the 20th century

1851 First international world's fair held in London, showcasing new technology

1856 Declaration of Paris recognizes the principle of free movement for trade, even in wartime—blockades could only extend along the enemy's coast; it also establishes the practice of allowing the accession to treaties of nations other than the original signatories

This advertisement provides the only time we have seen a human vomiting to market a product. The product advertised treats altitude sickness. The billboard appears in the Lima, Peru, airport, targeting tourists traveling from sea level to Cuzco and Machu Picchu (pictured in the scenic background). Cuzco, the old Inca capital, rises more than 11,000 feet in altitude, and many foreign tourists visiting there suffer this particular sort of turista.



From the days of Hannibal, the Alps have served as an important physical barrier and provided European countries protection from one another. But with the EU expansion, the Alps became a major impediment to trade. Truck traffic between southern Germany and northern Italy, which choked highways through some of Switzerland's most treacherous mountain roads and pristine nature areas, was not only burdensome for all travelers but becoming economically unacceptable. The solution, the 21-mile Loetschberg Tunnel, which opened in 2007, burrows under the Alps and trims the time trains need to cross between Germany and Italy from a three-and-a-half-hour trip to less than two hours. By 2014, the 36-mile Gotthard Tunnel will provide additional rail coverage for the area and be the world's longest rail tunnel.

Geography, Nature, and Economic Growth

Always on the slim margin between subsistence and disaster, less-privileged countries suffer disproportionately from natural and human-assisted catastrophes.¹⁶ The Haitian earthquake disaster of 2010 is perhaps the prominent example. Climate and topography coupled with civil wars, poor environmental policies, and natural disasters push these countries further into economic stagnation. Without irrigation and water management, droughts, floods, and soil erosion afflict them, often leading to creeping deserts that reduce the long-term fertility of the land.¹⁷ Population increases, deforestation, and overgrazing intensify the impact of

¹⁶"Asia's Tsunami: Helping the Survivors," *The Economist*, January 5, 2005.

¹⁷See Map 2, "Global Climate," in the World Maps section for a view of the diversity of the world's climate. The climatic phenomenon of El Niño wreaks havoc with weather patterns and is linked to crop failures, famine, forest fires, dust and sand storms, and other disasters associated with either an overabundance or a lack of rain.

1857 Russia and France sign trade treaty

1858 Ansei Commercial Treaties with Japan open the formerly closed country to trade with the West (treaties follow "opening" of Japan to the West by American Matthew Perry in 1854)

1860 The Cobden Treaty aims to create free trade by reducing or eliminating tariffs between Britain and France; also

leads to most-favored-nation status in bilateral agreements and eventually to multilateral agreements

1860 Passports are introduced in the United States to regulate foreign travel

1866 The principle of the electric dynamo is found by German Werner Siemens, who will produce the first electric power transmission system

1866 The trans-Atlantic cable is completed, allowing nearly instant (telegraphic) communication between the United States and Europe

1869 Suez Canal completed after 11 years of construction; the canal significantly cuts the time for travel between Europe and Asia, shortening, for example, the trip between Britain and India by 4,000 miles

1869 First U.S. transcontinental rail route is completed, heralding a boon for commerce; first commercially viable typewriter patented; until computer word processing becomes common more than a century later, the typewriter enables anyone to produce documents quickly and legibly

1873 United States adopts the gold standard to fix the international value of the dollar

drought and lead to malnutrition and ill health, further undermining these countries' abilities to solve their problems. Cyclones cannot be prevented, nor can inadequate rainfall, but means to control their effects are available. Unfortunately, each disaster seems to push developing countries further away from effective solutions. Countries that suffer the most from major calamities are among the poorest in the world.¹⁸ Many have neither the capital nor the technical ability to minimize the effects of natural phenomena; they are at the mercy of nature.

As countries prosper, natural barriers are overcome. Tunnels and canals are dug and bridges and dams are built in an effort to control or to adapt to climate, topography, and the recurring extremes of nature. Humankind has been reasonably successful in overcoming or minimizing the effects of geographical barriers and natural disasters, but as they do so, they must contend with problems of their own making. The construction of dams is a good example of how an attempt to harness nature for good has a bad side. Developing countries consider dams a cost-effective solution to a host of problems. Dams create electricity, help control floods, provide water for irrigation during dry periods, and can be a rich source of fish. However, there are side effects; dams displace people (the Three Gorges Dam in China will displace 1.3 million people¹⁹ while attracting tourists²⁰), and silt that ultimately clogs the reservoir is no longer carried downstream to replenish the soil and add nutrients. Similarly, the Narmada Valley Dam Project in India will provide electricity, flood control, and irrigation, but it has already displaced tens of thousands of people, and as the benefits are measured against social and environmental costs, questions of its efficacy are being raised. In short, the need for gigantic projects such as these must be measured against their social and environmental costs.

As the global rush toward industrialization and economic growth accelerates, environmental issues become more apparent. Disruption of ecosystems, relocation of people, inadequate hazardous waste management, and industrial pollution are problems that must be addressed by the industrialized world and those seeking economic development.²¹ The problems are mostly byproducts of processes that have contributed significantly to economic development and improved lifestyles. During the last part of the 20th century, governments and industry expended considerable effort to develop better ways to control nature and to allow industry to grow while protecting the environment.²²

Social Responsibility and Environmental Management

Nations, companies, and people reached a consensus during the close of the last decade: Environmental protection is not an optional extra; it is an essential part of the complex process of doing business. Many view the problem as a global issue rather than a national issue and as one that poses common threats to humankind and thus cannot be addressed by nations in isolation. Of special concern to governments and businesses are ways to stem the tide of pollution and to clean up decades of neglect.

¹⁸"Water Shortage Fears in Darfur Camps," *All Africa*, December 10, 2007; "Northern Vietnam Likely to Face Water Shortages," *Xinhua News Agency*, January 4, 2008.

¹⁹Anita Chang, "China: Three Gorges Dam Impact Not That Bad," *Associated Press*, November 22, 2007.

²⁰"Tourist Arrivals to Three Gorges Dam Hit New High in 2007," *Asia Pulse*, January 8, 2008.

²¹Sandy Bauers, "Big Wake-Up to Global Warming," *Philadelphia Inquirer*, December 24, 2007, p. D1.

²²Visit <http://www.gemi.org> for information on the Global Environmental Management Initiative, an organization of U.S. multinational companies dedicated to environmental protection. Also see Keith Bradsher, "Hong Kong Utilities Agree to Pollution-Linked Rates," *The New York Times*, January 10, 2008, p. C4.

1875 Universal Postal Union created in Switzerland to provide for an international mail service

1876 Alexander Graham Bell is granted a patent for the telephone, which will revolutionize communications

1880 Thomas Edison creates first electric power station, after inventing the electric light in 1878, which lights New York City and starts a revolution in

culture and business—making a truly 24-hour day and paving the way for electronic machines

1881 Zoopraxiscope, which shows pictures in motion, is developed

1884 The basis for establishing standard time and measuring the longitude of any spot in the world is created with the designation of Greenwich,

England, as the prime meridian (0° longitude)

1886 American Federation of Labor founded, becoming a model for workers around the world to unite against management and gain higher pay and better working conditions

1901 Italian Guglielmo Marconi sends the first radio message; the radio could

be said to spark the start of globalization because of the speed with which information is able to be transmitted

1903 First successful flight of an airplane, piloted by Orville Wright, takes place at Kitty Hawk, North Carolina

1904 First vacuum tube is developed by John Fleming, allowing alternating current to become direct current and



Two kinds of economic progress, one with great collateral damage and one with much less. Large trucks are dwarfed by the 185-meter sluice gates of the Three Gorges Dam. China began filling the reservoir in a major step toward completion of the world's largest hydroelectric project. The level is expected to reach 135 meters (446 feet), inundating thousands of acres, including cities and farms along the Yangtze River. The second picture depicts Mongolian men as they view a small section of a huge solar energy project in their region. Perhaps still an eyesore for the locals, at least it is relatively energy efficient. (AP/Wide World Photos)

Companies looking to build manufacturing plants in countries with more liberal pollution regulations than they have at home are finding that regulations everywhere have gotten stricter. Many governments are drafting new regulations and enforcing existing ones. Electronic products contain numerous toxic substances that create a major disposal problem in landfills where inadequate disposal allows toxins to seep into groundwater. The European Union, as well as other countries, has laws stipulating the amount and types of potentially toxic substances it will require a company to take back to recycle. A strong motivator is the realization that pollution is on the verge of getting completely out of control.

China is now the world's top polluter in almost all respects.²³ By 2020 its **greenhouse-gas emissions** will be more than double the closest rival, the United States. An examination of rivers, lakes, and reservoirs in China revealed that toxic substances polluted 21 percent and that 16 percent of the rivers were seriously polluted with excrement. China has 16 of the world's 20 most polluted cities.²⁴ The very process of controlling industrial wastes leads to another and perhaps equally critical issue: the disposal of hazardous waste, a byproduct of pollution controls. Estimates of hazardous wastes collected annually exceed 300 million tons; the critical issue is disposal that does not simply move the problem elsewhere. Countries encountering increasing

²³Sharon Begley, "Leaders of the Pack," *BusinessWeek*, November 30, 2009, pp. 46–51.

²⁴Jim Yardley, "Consultant Questions Beijing's Claim of Cleaner Air," *The New York Times*, January 10, 2008, p. A3.

helping create widespread use of the radio

1913 Assembly line introduced by Henry Ford; it will revolutionize manufacturing

1914 The first war to involve much of the world begins with the assassination of Archduke Francis Ferdinand and lasts four years; construction of Panama Canal is completed, making trade faster and easier

1917 Lenin and Trotsky lead Russian revolution, creating a living economic model that will affect trade (adversely) for the rest of the century

1919 First nonstop trans-Atlantic flight completed, paving the way for cargo to be transported quickly around the globe

1920 League of Nations created, establishing a model

for international cooperation (though it failed to keep the peace)

1923 Vladimir Zworykin creates first electronic television, which will eventually help integrate cultures and consumers across the world

1929 Great Depression starts with crash of U.S. stock market

1930 Hawley-Smoot Tariff passed by U.S. Senate,

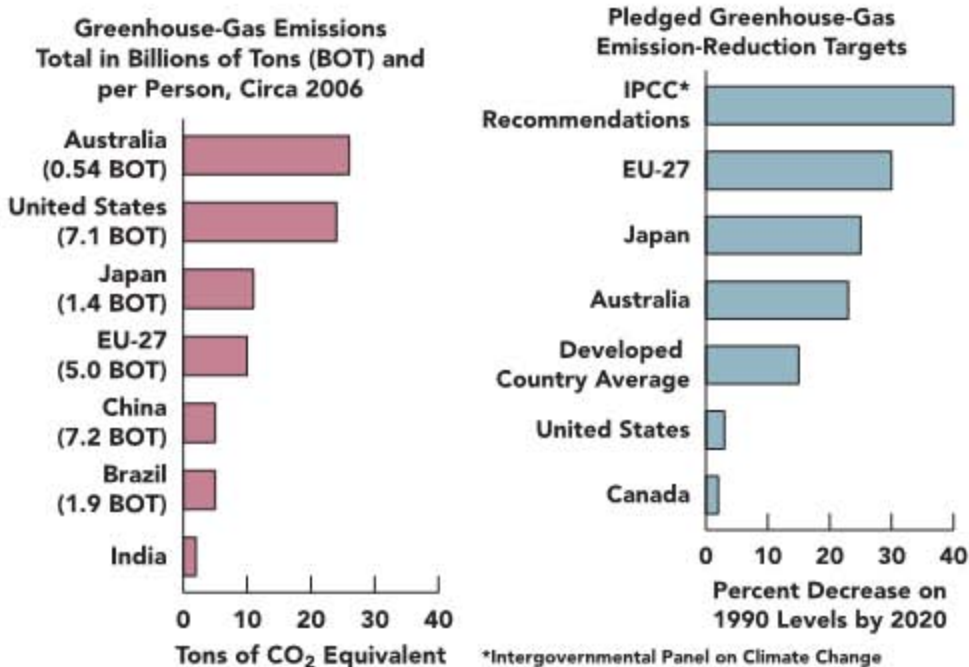
plunging the world deeper into the Great Depression

1935 Radar developed in Britain; it will allow travel on ships and planes even when there is no visibility, enabling the goods to keep to a transport schedule (eventually allowing the development of just-in-time and other cost-saving processes)

Exhibit 3.3

A Comparison of Greenhouse-Gas Emission Rates and Pledges for Reductions

Source: Intergovernmental Panel on Climate Change



difficulty in the disposal of wastes at home are seeking countries willing to assume the burden of disposal. Waste disposal is legal in some developing countries as governments seek the revenues that are generated by offering sites for waste disposal. In other cases, illegal dumping is done clandestinely. A treaty among members of the Basel Convention that required prior approval before dumping could occur was later revised to a total ban on the export of hazardous wastes by developed nations. The influence and leadership provided by this treaty are reflected in a broad awareness of pollution problems by businesses and people in general.²⁵

Governments, organizations, and businesses are becoming increasingly concerned with the social responsibility and ethical issues surrounding the problem of maintaining economic growth while protecting the environment for future generations. However, the commitment made by governments and companies varies dramatically around the world. For example, with one of the highest pollution rates on a per capita basis, the United States lags behind almost all major competitors in agreeing to greenhouse emission standards (see Exhibit 3.3).²⁶ The Organization for Economic Cooperation and Development, the United Nations, the European Union, and international activist groups are undertaking programs to strengthen environmental policies.²⁷ In many ways China, because it has the most urgent and greatest pollution problems, is leading the charge in new green technology.²⁸ Many large

²⁵For a comprehensive view of OECD programs, including environmental issues, visit <http://www.oecd.org>.

²⁶"Closing the Gaps," *The Economist*, December 5, 2009, pp. 18–19.

²⁷William C. Clark, "Science and Policy for Sustainable Development," *Environment*, January–February 2005.

²⁸Shai Oster, "World's Top Polluter Emerges as Green-Technology Leader," *The Wall Street Journal*, December 15, 2009, online.

1938 American Chester Carlson develops dry copying process for documents (xerography), which, among other things, will enable governments to require that multiple forms be filled out to move goods
1939 World War II begins with German invasion of Poland; over 50 million people will die

1943 The first programmable computer, Colossus I, is created in England at Bletchley Park; it helps to crack German codes
1944 Bretton Woods Conference creates basis for economic cooperation among 44 nations and the founding of the International Monetary Fund to help stabilize exchange rates

1945 Atomic weapons introduced; World War II ends; United Nations founded
1947 General Agreement on Tariffs and Trade signed by 23 countries to try to reduce barriers to trade around the world
1948 Transistor is invented; it replaces the vacuum tube, starting a technology revolution

1949 People's Republic of China founded by Mao Zedong, which will restrict access to the largest single consumer market on the globe
1957 European Economic Community (EEC) established by Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands, the precursor to today's European Union

Here in São Paulo, Shell sells two kinds of fuel: alcohol made primarily from sugarcane and gasoline made from dirtier fossil fuels. Flexible-fuel engines in Brazilian cars can burn either kind of fuel or any mixture of the two. Although the price per liter is quite different, so is the mileage per liter. Brazilians make their choice of fuel based on the kind of driving they anticipate, city versus highway.



multinational companies such as Petrobras,²⁹ Walmart,³⁰ and Nike are not only cleaning up their own operations around the world but also pushing their suppliers to do the same.

The issue that concerns everyone is whether economic development and protection for the environment can coexist. **Sustainable development** is a joint approach among those (e.g., governments, businesses, environmentalists, and others) who seek economic growth with “wise resource management, equitable distribution of benefits and reduction of negative effects on people and the environment from the process of economic growth.” Sustainable development is not about the environment or the economy or society. It is about striking a lasting balance between all of these. More and more companies are embracing the idea of sustainable development as a “win-win” opportunity.³¹ Responsibility for protecting the environment does not rest solely with governments, businesses, or activist groups; however, each citizen has a social and moral responsibility to include environmental protection among his or her highest goals.³² This idea is particularly a problem in the United States, where consumers are often more interested in style than in sustainability,³³ public opinion polls favor growth over the environment,³⁴ and

²⁹Jose Sergio Gabrielli de Azevedo, “The Greening of Petrobras,” *Harvard Business Review*, March 2009, pp. 43–47.

³⁰Adam Aston, “Wal-Mart’s Green Stock,” *BusinessWeek*, May 25, 2009, p. 44.

³¹Visit <http://www.oecd.org>, the OECD Web site, for a directory and complete coverage of sustainable development.

³²Visit <http://www.webdirectory.com> for the *Amazing Environmental Organization Web Directory*, a search engine with links to an extensive list of environmental subjects.

³³Burt Helm, “Nike Goes Green, Very Quietly,” *BusinessWeek*, June 22, 2009, p. 56.

³⁴“Who Cares?” *The Economist*, December 5, 2009, p. 15.

1961 Berlin Wall is erected, creating Eastern and Western Europe with a physical and spiritual barrier

1964 Global satellite communications network established with INTELSAT (International Telecommunications Satellite Organization)

1965 *Unsafe at Any Speed* published by Ralph Nader, sparking a revolution in

consumer information and rights

1967 European Community (EC) established by uniting the EEC, the European Coal and Steel Community, and the European Atomic Energy Community

1971 First microprocessor produced by Intel, which leads to the personal computer; communist China joins the

United Nations, making it a truly global representative body

1971 United States abandons gold standard, allowing the international monetary system to base exchange rates on perceived values instead of ones fixed in relation to gold

1972 One billion radios on the planet

1973 Arab oil embargo jolts industrial world into understanding the totally global nature of supply and demand

1980 CNN founded, providing instant and common information the world over, taking another significant step in the process of globalization started by the radio in 1901

A huge offshore discovery has the potential to make Brazil a new major petroleum exporter through its national oil company, Petrobras.³⁵

(The New York Times, January 11, 2008, p. C1; © Edro Lobo/Bloomberg News/Landov)



high school students receive relatively little environmental education.³⁶ A recent study has also shown that governments with pluralistic constituencies may have relatively more trouble persuading important minority groups to agree to their environmental efforts.³⁷

Resources

The availability of minerals³⁸ and the ability to generate energy are the foundations of modern technology. The locations of Earth's resources, as well as the available sources of energy, are geographic accidents. The world's nations are not equally endowed, and no nation's demand for a particular mineral or energy source necessarily coincides with domestic supply.

In much of the underdeveloped world, human labor provides the preponderance of energy. The principal supplements to human energy are animals, wood, fossil fuel, nuclear power, and, to a lesser and more experimental extent, the ocean's tides, geothermal power, and the sun. Of all the energy sources, oil and gas contribute over 60 percent of world energy consumption.³⁹ Because of petroleum's versatility and the ease with which it is stored and transported, petroleum-related products continue to dominate energy usage.⁴⁰ (See Exhibit 3.4.)

³⁵Alexi Barrinuevo, "Hot Prospect for Oil's Big League," *The New York Times*, January 11, 2008, pp. C1, C4.

³⁶"Are U.S. Teenagers 'Green' Enough?" *Chronicle of Higher Education*, November 20, 2009, p. A4.

³⁷Amir Grinstein and Udi Nisan, "Demarketing, Minorities, and National Attachment," *Journal of Marketing* 73, no. 2 (2009), pp. 105–22.

³⁸"Global Copper Shortage Reaches 340,000t in H1," *China Industry Daily News*, September 21, 2007.

³⁹Visit <http://www.eia.doe.gov> and search for "International Energy Outlook (most current year)" for details of production, use, and so forth.

⁴⁰See Map 3, "Oil and Gas Production and Consumption," for a global view of the flow and uses of petroleum.

1987 ISO issues ISO 9000 to create a global quality standard

1988 One billion televisions on the planet

1989 Berlin Wall falls, symbolizing the opening of the East to the West for ideas and commerce

1991 Soviet Union formally abandons communism, as most formerly communist states move toward capitalism and

the trade it fosters; Commonwealth of Independent States (CIS) established among Russia, Ukraine, and Belarus

1993 NAFTA ratified by U.S. Congress; European Union created from the European Community, along with a framework for joint security and foreign policy action, by the 1991 Maastricht Treaty on

European Union; the EEC is renamed the EC

1994 The Chunnel (Channel Tunnel) is opened between France and Britain, providing a ground link for commerce between the continent and Britain

1995 World Trade Organization (WTO) set up as successor of GATT; by 2000 more than

130 members will account for over 90 percent of world trade.

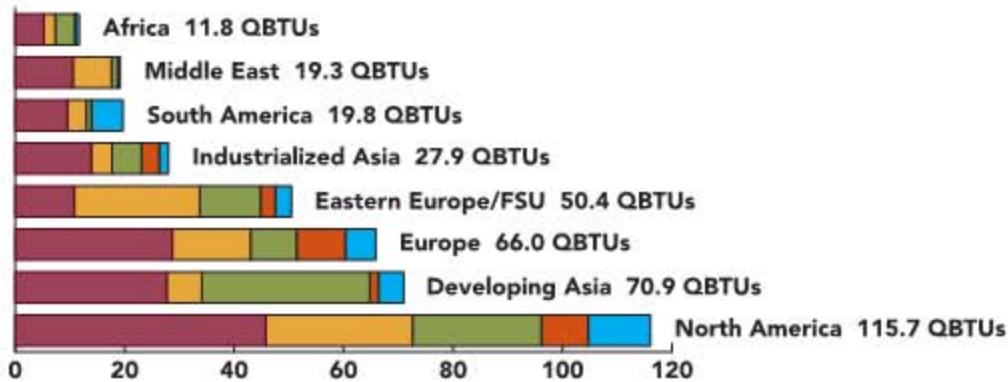
1997 Hong Kong, a world trading and financial capital and bastion of capitalism, is returned to communist Chinese control; Pathfinder lands on Mars, and Rover goes for a drive but finds no one with whom to trade

Exhibit 3.4

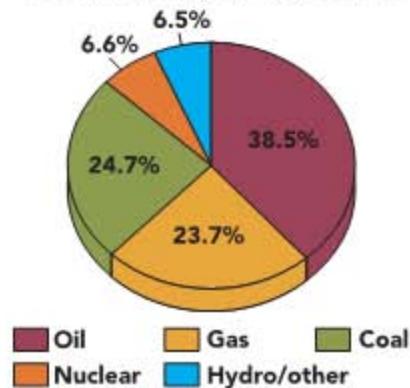
World Energy Consumption

Energy consumed by world regions, measured in quadrillion BTUs in 2001. Total world consumption was 381.8 quadrillion BTUs. The largest portion of the hydro/other category is hydroelectrical energy. Fuels such as wood, peat, animal waste, wind, solar, and geothermal account for less than 1.0 quadrillion BTUs in the other portion of the hydro/other category.

**Total World Energy Consumption
By Region and Fuel (Quadrillion BTU)**



**Percentage of World Energy
Consumption by Energy Sources**



Sources: Data compiled from "Introduction to World Geography," Oxford Atlas of the World (New York: Oxford University Press, 2003) and Energy Information Administration (EIA), International Energy Outlook 2004 (Washington, DC, 2005), <http://www.eia.doe.gov/oiaf/ieo>.

Many countries that were self-sufficient during much of their early economic growth have become net importers of petroleum during the past several decades and continue to become increasingly dependent on foreign sources. A spectacular example is the United States, which was almost completely self-sufficient until 1942, became a major importer by 1950, and between 1973 and 2000 increased its dependency from 36 percent to over 66 percent of its annual requirements. If present rates of consumption continue, predictions are that by the mid-2000s the United States will be importing more than 70 percent

1999 Euro introduced in 11 European Union nations, paving the way for the creation of a true trade union and trade bloc

1999 Seattle Round of WTO negotiations pits the United States versus the European Union, in the first great protest against globalization

1999 Control of the Panama Canal, a major trade lane, is returned to Panama

2000 Second millennium arrives, predicted computer problems are a non-event

2001 September 11 terrorist attack on the World Trade Center in New York City and the Pentagon in Washington, DC; one billion mobile phones on the planet

2002 United States attacks Taliban in Afghanistan

2003 United States attacks regime of Saddam Hussein in Iraq

2004 Great Indian Ocean tsunami kills 500,000 people

2006 One billion personal computers on the planet

2008 Beijing hosts the Olympics

2009 Great Recession causes largest decline in world

trade since World War II; even so, almost 4 billion mobile phone subscribers around the globe

2010 Earthquake in Haiti kills more than 200,000 people

2040 The United Nations' earliest estimate for the world population to begin shrinking due to the global decline of fertility



Cattle dung, which is used both as farmyard manure and, dried into cakes, as household fuel, is being carried to a local market in India. India's cattle produce enormous quantities of dung, which some studies suggest provide the equivalent of 10,000 megawatts of energy annually.



This Masai woman of Tanzania put to good use both cow dung and urine in building her hut pictured here in her family village (or boma). The semi-nomadic Masai graze their cattle during the day but enclose them within the acacia bush boma at night to protect them from predators.

of its needs, that is, more than 17 million barrels of oil each day. Exhibit 3.4 compares North American domestic energy consumption with other world regions. It is interesting to note that though North America is currently a major consumer of energy, industrializing Asia and the three industrialized areas (as shown in Exhibit 3.4) do not lag far behind. In fact, China has become the world's second-largest oil importer after the United States, and demand continues to grow rapidly.⁴¹

Since World War II, arguments about the limitless availability of seemingly inexhaustible supplies of petroleum have been prominent.⁴² The dramatic increase in economic growth in the industrialized world and the push for industrialization in the remaining world have put tremendous pressure on Earth's energy resources. Unfortunately, as countries industrialize, energy sources are not always efficiently utilized. China, for example, spends three times the world average on energy (all sources) to produce one dollar of gross national product (GNP). In comparison with Japan, possibly the world's most efficient user of energy, where less than 5 ounces of oil is needed to generate \$1 in GNP, in China, approximately 80 ounces of oil is needed.⁴³ The reasons for China's inefficient oil use are numerous, but the worst culprit is outdated technology.⁴⁴

The growth of market-driven economies and an increasing reliance on petroleum supplies from areas of political instability—the Middle East, the former Soviet Union, and Latin America—create a global interdependence of energy resources. The net result is a profound impact on oil prices and on the economies of industrialized and industrializing countries.

⁴¹Koh Chin Ling and Loretta Ng, "China's Crude Oil Imports Surge in March," *International Herald Tribune*, April 22, 2005.

⁴²Stanley Reed, "Endless Oil," *BusinessWeek*, January 18, 2010, pp. 47–49.

⁴³"Lessons from a Miser," *BusinessWeek*, April 11, 2005, p. 51.

⁴⁴"Wasteful Ways," *BusinessWeek*, April 11, 2005, p. 50.

The location, quality, and availability of resources will affect the pattern of world economic development and trade well into the 21st century. In addition to the raw materials of industrialization, an economically feasible energy supply must be available to transform resources into usable products. As the global demand for resources intensifies and prices rise, resources will continue to increase in importance among the uncontrollable elements of the international marketer's decisions.

Dynamics of Global Population Trends Current population, rural/urban population shifts, rates of growth, age levels, and population control help determine today's demand for various categories of goods.⁴⁵ Although not the only determinant, the existence of sheer numbers of people is significant in appraising potential consumer markets. Changes in the composition and distribution of population among the world's countries will profoundly affect future demand. Moreover, it now appears that demand for goods worldwide can affect migration patterns as well, in a reversal of the traditional causal relationship. Specifically, the global financial crisis that began in 2008 appears to have caused a (perhaps temporary) reversal of migrations from urban to rural areas within countries and from developed back to developing countries internationally as employment opportunities dry up in response to the decline in demand for goods and services worldwide.⁴⁶

Recent estimates place world population at more than 6.8 billion people, a number expected to grow to about 8 billion by 2050. However, seemingly small differences in assumptions about fertility rates can make big differences in growth forecasts. One possible scenario put forth by United Nations experts suggests the planet's population may peak at about 8 billion and then begin to decline after 2040. All scenarios agree though that almost all of the projected growth up to 2050 will occur in less developed regions.⁴⁷ Exhibit 3.5 shows that 85 percent of the population will be concentrated in less developed regions by 2050. The International Labor Organization estimates that 1.2 billion

⁴⁵A book written in 1998 predicted the Great Recession of 2008–2009 ten years in advance, based on demographic projections of consumer demand. For a very interesting read, see Harry S. Dent, *The Roaring 2000s* (Touchstone: New York, 1998); also see John L. Graham, "2020 Is 23 Years from Now," *UCInsight*, Spring 1997, pp. 3, 13 for a similar, demographics-based prediction.

⁴⁶Patrick Barta and Joel Millman, "The Great U-Turn," *The Wall Street Journal*, June 6, 2009, p. A1.

⁴⁷See *World Population Prospects, The 2008 Revisions*, United Nations Economic and Social Affairs, <http://www.unpopulation.org>, 2010.

Exhibit 3.5

World Population by Region, 2009–2050, and Life Expectancy at Birth, 2005–2010 (millions)

Source: World Population Prospects, The 2008 Revision, United Nations Economic and Social Affairs, www.unpopulation.org, 2010. Reprinted with permission.

Regions	Population (in millions)		Life Expectancy at Birth
	2009	2050*	2005–2010
World	6,829	7,959	67.2
More developed regions**	1,233	1,126	77.1
Less developed regions†	5,596	6,833	65.6
Least developed regions‡	835	1,463	55.9
Africa	1,010	1,748	54.1
Asia	4,121	4,533	68.9
Europe	732	609	75.1
Latin America	582	626	73.4
Northern America	348	397	79.3
Oceania	35	45	76.2

*Lowest estimate among three provided.

**More developed regions comprise all regions of Europe and Northern America, Australia, New Zealand, and Japan.

†Less developed regions comprise all regions of Africa, Asia (excluding Japan), and Latin America and the regions of Melanesia, Micronesia, and Polynesia.

‡Least developed regions, as defined by the United Nations General Assembly, include 48 countries, of which 33 are in Africa, 9 in Asia, 1 in Latin America, and 5 in Oceania. They are also included in the less developed regions.

jobs must be created worldwide to accommodate these new entrants through 2025. Furthermore, most of the new jobs will need to be created in urban areas where most of the population will reside.

Controlling Population Growth

LO7

The economic effects of controlling population growth and aging populations

Faced with the ominous consequences of the population explosion, it would seem logical for countries to take steps to reduce growth to manageable rates, but procreation is one of the most culturally sensitive uncontrollable factors. Economics, self-esteem, religion, politics, and education all play critical roles in attitudes about family size. All these considerations make the impact of China's long-term enforcement of its one-child policies most remarkable.⁴⁸

The prerequisites to population control are adequate incomes, higher literacy levels, education for women, universal access to healthcare, family planning, improved nutrition, and, perhaps most important, a change in basic cultural beliefs regarding the importance of large families. Unfortunately, minimum progress in providing improved living conditions and changing beliefs has occurred. India serves as a good example of what is happening in much of the world. India's population was once stable, but with improved health conditions leading to greater longevity and lower infant mortality, its population will exceed that of China by 2050, when the two will account for about 50 percent of the world's inhabitants.⁴⁹ The government's attempts to institute change are hampered by a variety of factors, including political ineptitude⁵⁰ and slow changes in cultural norms. Nevertheless, the government continues to pass laws with the intended purpose of limiting the number of births. A novel example was a law that bars those with more than two children from election to the national Parliament and state assemblies. This rule would mean that many now in office could not seek reelection because of their family size.⁵¹

Perhaps the most important deterrent to population control is cultural attitudes about the importance of large families. In many cultures, the prestige of a man, whether alive or dead, depends on the number of his progeny, and a family's only wealth is its children. Such feelings are strong. Prime Minister Indira Gandhi found out how strong when she attempted mass sterilization of men, which reportedly was the main cause of her defeat in a subsequent election. Additionally, many religions discourage or ban family planning and thus serve as a deterrent to control. Nigeria has a strong Muslim tradition in the north and a strong Roman Catholic tradition in the east, and both faiths favor large families. Most traditional religions in Africa encourage large families; in fact, the principal deity for many is the goddess of land and fertility.

Family planning and all that it entails is by far the most universal means governments use to control birthrates, but some economists believe that a decline in the fertility rate is a function of economic prosperity and will come only with economic development. Ample anecdotal evidence suggests that fertility rates decline as economies prosper. For example, before Spain's economy began its rapid growth in the 1980s, families had six or more children; now, Spain has one of the lowest birthrates in Europe, an average of 1.24 children per woman. Similar patterns have followed in other European countries as economies have prospered.

Rural/Urban Migration

Migration from rural to urban areas is largely a result of a desire for greater access to sources of education, healthcare, and improved job opportunities.⁵² In the early 1800s, less than 3.5 percent of the world's people were living in cities of 20,000 or more and less than

⁴⁸Maureen Fan, "Officials Violating 'One-Child' Policy Forced Out in China," *Washington Post*, January 8, 2008, p. A16.

⁴⁹"India to Surpass China in Population," *ExpressIndia*, May 18, 2005.

⁵⁰Anand Giridharadas, "A Buoyant India Dares to Ask: Is a Billion So Bad?" *International Herald Tribune*, May 4, 2005.

⁵¹V. K. Paghunathan, "3 Tykes and You're Out," *Straits Times*, April 11, 2003.

⁵²Tor Ching Li, "Urban Migration Drains Asian Coffee Farms' Work Force," *Dow Jones Commodities Service*, December 13, 2007.

2 percent in cities of 100,000 or more; today, more than 40 percent of the world's people are urbanites, and the trend is accelerating. Once in the city, perhaps three out of four migrants achieve some economic gains.⁵³ The family income of a manual worker in urban Brazil, for example, is almost five times that of a farm laborer in a rural area.

By 2030, estimates indicate that more than 61 percent of the world's population will live in urban areas (up from 49 percent in 2005, with similar changes across all regions), and at least 27 cities will have populations of 10 million or more, 23 of which will be in the less developed regions. Tokyo has already overtaken Mexico City as the largest city on Earth, with a population of 26 million, a jump of almost 8 million since 1990.

Although migrants experience some relative improvement in their living standards, intense urban growth without investment in services eventually leads to serious problems. Slums populated with unskilled workers living hand to mouth put excessive pressure on sanitation systems, water supplies,⁵⁴ and social services. At some point, the disadvantages of unregulated urban growth begin to outweigh the advantages for all concerned.

Consider the conditions that exist in Mexico City today. Besides smog, garbage, and pollution brought about by its increased population, Mexico City faces a severe water shortage. Local water supplies are nearly exhausted and in some cases are unhealthy.⁵⁵ Water consumption from all sources is about 16,000 gallons per second, but the underground aquifers are producing only 2,640 gallons per second. Water comes from hundreds of miles away and has to be pumped up to an elevation of 7,444 feet to reach Mexico City. Such problems are not unique to Mexico; throughout the developing world, poor sanitation and inadequate water supplies are consequences of runaway population growth. An estimated 1.1 billion people are currently without access to clean drinking water, and 2.8 billion lack access to sanitation services. Estimates are that 40 percent of the world's population, 2.5 billion people, will be without clean water if more is not invested in water resources. Prospects for improvement are not encouraging, because most of the world's urban growth will take place in the already economically strained developing countries.

Population Decline and Aging

While the developing world faces a rapidly growing population,⁵⁶ the industrialized world's population is in decline and rapidly aging.⁵⁷ Birthrates in western Europe and Japan have been decreasing since the early or mid-1960s; more women are choosing careers instead of children, and many working couples are electing to remain childless. As a result of these and other contemporary factors, population growth in many countries has dropped below the rate necessary to maintain present levels. Just to keep the population from falling, a nation needs a fertility rate of about 2.1 children per woman. Not one major country has sufficient internal population growth to maintain itself, and this trend is expected to continue for the next 50 years.

At the same time that population growth is declining in the industrialized world,⁵⁸ there are more aging people today than ever before.⁵⁹ Global life expectancy has grown more in the past 50 years than over the previous 5,000 years. Until the Industrial Revolution, no more than 2 or 3 percent of the total population was over the age of 65 years. Today in the developed world, the over-age-65 group amounts to 14 percent, and by 2030, this group will reach 25 percent in some 30 different countries. Furthermore, the number of "old old"

⁵³Diane Mosher, "Chinese Urban Migration Creates Opportunities for International Urban Planners," *Multi-Housing News*, April 2, 2007.

⁵⁴"China Faces Worsening Water Woes," *Chicago Sun-Times*, March 24, 2005.

⁵⁵"Nation Faces Water Shortage," *El Universal (Mexico City)*, March 23, 2005.

⁵⁶Gerald Tenywa and Ben Okiror, "Population Growth Highest around Lake Victoria," *All Africa*, November 1, 2007.

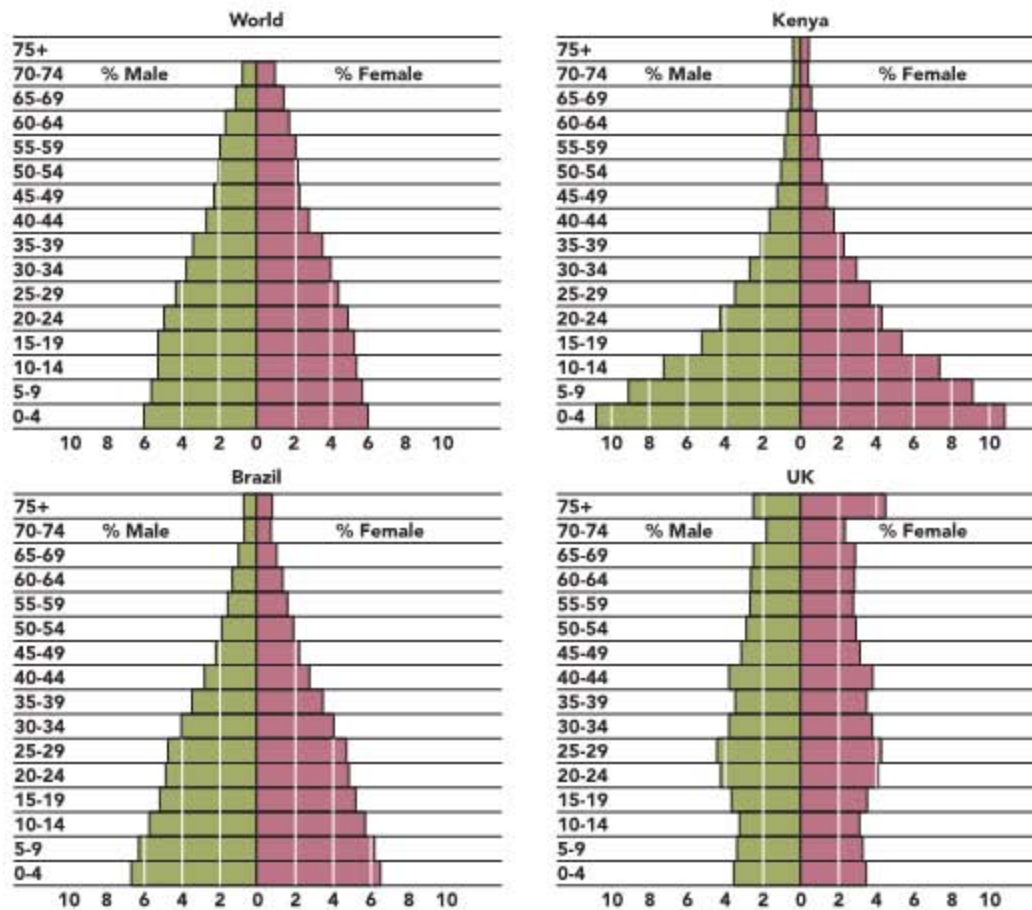
⁵⁷There are apparent exceptions; see "Finland Sees Record-High Population Growth in 2007," *Xinhua News Agency*, January 1, 2008.

⁵⁸"Russia's Population Shrinks by 208,000 in 10 Months," *Russia & CIS Newswire*, December 21, 2007.

⁵⁹"China Population Ageing Rapidly," *Associated Press Newswires*, December 17, 2007.

Exhibit 3.6

Age Density for World and Selected Countries



Source: From Oxford Atlas of the World, 10th ed., 2002. Reprinted with permission of Philip Maps.

will grow much faster than the “young old.” The United Nations projects that by 2050, the number of people aged 65 to 84 years worldwide will grow from 400 million to 1.3 billion (a threefold increase), while the number of people aged 85 years and over will grow from 26 million to 175 million (a sixfold increase)—and the number aged 100 years and over will increase from 135,000 to 2.2 million (a sixteenfold increase). Exhibit 3.6 illustrates the disparity in aging that is typical among less developed countries (Kenya), developing countries (Brazil), and an economically developed country (United Kingdom). Countries like Kenya, with a high proportion of young people, face high education and healthcare costs, whereas countries like the United Kingdom, with top-heavy population pyramids, face high pension and healthcare costs for the elderly with fewer wage earners to bear the burden.

Europe, Japan, and The United States epitomize the problems caused by an increasing percentage of elderly people who must be supported by a declining number of skilled workers. In 1998, Japan crossed a threshold anticipated with fear by the rest of the developed world: The point at which retirees withdrawing funds from the pension system exceeded the workers contributing to it. The elderly require higher government outlays for healthcare and hospitals,⁶⁰ special housing and nursing homes, and pension and welfare assistance, but the workforce that supports these costs is dwindling. The part of the world with the largest portion of people over 65 years is also the part of the world with the

⁶⁰Ben Shankland, “Government of Colombia Tries to Sell Beleaguered Hospital Again,” *Global Insight Daily Analysis*, December 19, 2007.

CROSSING BORDERS 3.3

Where Have All the Women Gone?

Three converging issues in China have the potential of causing a serious gender imbalance:

- China, the world's most populous country, has a strict one-child policy to curb population growth.
- Traditional values dictate male superiority and a definite parental preference for boys.
- Prenatal scanning allows women to discover the sex of their fetuses and thereby abort unwanted female fetuses.

The first wave of children born under the one-child policy is reaching marriageable age, and there are far too few brides to go around. The ratio of males to females is unnaturally high, hovering around 118 boys for every 100 girls in 2005. Thus, men in their 20s have to deal with the harsh reality of six bachelors for every five potential brides. So what is a desperate bachelor to do?

The shortage has prompted some parents to acquire babies as future brides for their sons. Infants are considered more appealing because they are less likely to run away, will look on their buyers as their own parents, and are cheaper than buying a teenage bride. Buying a baby girl can cost as little as \$100 and won't result in the fines imposed on couples who violate birth control limits. Such fines can equal as much as six years' income.

Another alternative is to marry a relative. At age 20 years, with his friends already paired off, Liu found himself the odd man out. His parents, farmers in a small backwater village, could not raise the \$2,000 required to attract a bride for their son. Desperate, Liu's mother asked her sister for a favor: Could she ask Hai, her daughter, to be Liu's bride? Young women like Hai are not likely to defy their parents. And so Liu and Hai were wed.

Chinese officials are starting to worry about the imbalance and have announced a raft of new programs to reverse the trend. These offers include cash payments for couples who have a daughter and let her live, along with privileges in housing, employment, and job training. Some families with girls will also be exempt from paying school fees. Even though the government staunchly defends its one-child policy, it is experimenting with allowing couples whose first-born is a girl to have a second child. In the meantime and until the new policy results in more girls, today's 20-year-old men will just have to compete if they want a wife.

Sources: Nicholas Zamiska, "China's One-Child Policy Gets Wider Enforcement," *The Wall Street Journal Asia*, January 8, 2008, p. 10; Mark R. Rosenzweig and Junse Zhang, "Do Population Control Policies Induce More Human Capital Investment?" *Review of Economic Studies* 76, no. 3 (2009), pp. 1149-74.

fewest number of people under age 15 years. This disparity means that there will be fewer workers to support future retirees, resulting in an intolerable tax burden on future workers, more of the over-65 group remaining in the labor force, or pressure to change existing laws to allow mass migration to stabilize the worker-to-retiree ratio. No one solution is without its problems.⁶¹

Worker Shortage and Immigration

For most countries, mass immigration is not well received by the resident population. However, a recent report from the United Nations makes the strongest argument for change in immigration laws as a viable solution. The free flow of immigration will help ameliorate the dual problems of explosive population expansion in less developed countries and worker shortage in industrialized regions.⁶² Europe is the region of the world most affected by aging and thus by a steadily decreasing worker-to-retiree ratio. The proportion of older persons will increase from 20 percent in 1998 to 35 percent in 2050. The country with the largest share of old people will be Spain, closely followed by Italy. Recognizing the problem, Spain has changed immigration laws to open its borders to all South Americans of Spanish descent.⁶³ To keep the worker-to-retiree ratio from falling, Europe will need 1.4 billion immigrants over the next 50 years, while Japan and the

⁶¹J. T. Young, "Failure of Social Security Reform Mustn't Derail Personal Accounts," *Investor's Business Daily*, January 3, 2008.

⁶²"Russian Immigration Rules Could Cause Worker Shortage," *Associated Press, Charleston Gazette*, January 16, 2007, p. P2D.

⁶³"Spain Grants Amnesty to 700,000 Migrants," *Guardian Unlimited*, May 9, 2005.

CROSSING BORDERS 3.4

History, Geography, and Population Collide in America: Returning to Multigenerational Family Living

As pension systems, healthcare systems, and retirement plans continue to crumble under the weight of Baby Boom numbers, we all will need to rely more on the strength of family ties and remember the fundamental human characteristic of interdependence. The problem is that such remembrance is particularly hard for Americans, as opposed to all other peoples on the planet.

America started with The Declaration of Independence. On July 4, 1776, the founding fathers broke from the tyranny of England to form a new country. That document and the idea of independence represent the essence of being American and literally the most celebrated notion of the nation. Indeed, the goal of mainstream American parenting is to inculcate this notion into the thinking of children: We ensure they make their own beds, make their own lunches, wash their own clothes, do their own homework, drive their own cars, and so forth. How else can they become independent adults?

There are at least three problems with this American obsession with independence. First, it stigmatizes the burgeoning numbers of both boomerang kids and grandparents living with their grandchildren as families across America smartly reunite. According to the most recent U.S. Census figures, there are 22 million adult

children living with their parents and 6 million grandparents living in three-generation households, and both numbers are growing fast. Second, teaching independence actually hasn't worked anyway, as we will see next. And third, there is really no such thing as independence anyway. There is only interdependence.

This American overemphasis on independence is now being recognized by the most independent-minded of all Americans, CEOs. In Bill George's wonderful book, *Authentic Leadership*, he argues that the job of chief executive depends on six constituencies. Without surprise, the former CEO of Medtronic lists shareholders, employees, customers, vendors, and the larger community. But what is unique, and perhaps even revolutionary, in his list is his own family. He recognizes that his own success as a CEO in part depended of the quality of his family life. Thus, he organized his executive team and responsibilities such that he had time to attend kids's soccer matches and such. Remarkable!

Source: Sharon G. Niederhaus and John L. Graham, *Together Again, A Creative Guide to Multigenerational Living* (Lanham, MD: Evans, 2007); Sandra Timmerman, "Generational Reciprocity: What Does It Mean in the 21st Century?" *Journal of Financial Service Professionals* 63, no. 5 (2009), pp. 25–27; "Boomers: New Social Media Mavins," Research Brief, Center for Media Research, January 26, 2010, online.

United States⁶⁴ will need 600 million immigrants between now and 2050. Immigration will not help ameliorate the problem though if political and cultural opposition to immigration cannot be overcome.

The trends of increasing population in the developing world, with substantial shifts from rural to urban areas, declining birthrates in the industrialized world, and global population aging, will have profound effects on the state of world business and world economic conditions. Without successful adjustments to these trends, many countries will experience slower economic growth, serious financial problems for senior retirement programs, and further deterioration of public and social services, leading to possible social unrest.

World Trade Routes Trade routes bind the world together, minimizing distance, natural barriers, lack of resources, and the fundamental differences between peoples and economies. As long as one group of people in the world wants something that another group somewhere else has and there is a means of travel between the two, there is trade. Early trade routes were over land; later came sea routes, air routes, and, finally, some might say, the Internet to connect countries.

⁶⁴"US Tech Sector Eyes Immigration Bill Revival, Cites Worker Shortage," *Agence France-Presse*, June 9, 2007.

Climate change opens up a new trade route that may compete with the Panama Canal, cutting costly days off the travel time between Western Europe and Asia. Here a German commercial vessel follows a Russian icebreaker through the proverbial Northwest Passage.



Trade routes among Europe, Asia, and the Americas were well established by the 1500s. The Spanish empire founded the city of Manila in the Philippines to receive its silver-laden galleons bound for China. On the return trip, the ship's cargo of silk and other Chinese goods would be offloaded in Mexico, carried overland to the Atlantic, and put on Spanish ships to Spain. What we sometimes fail to recognize is that these same trade routes remain important today and that many Latin American countries have strong relationships with Europe, Asia, and the rest of the world that date back to the 1500s. The commodities traded have changed between the 1500s and today, but trade and the trade routes continue to be important. Today, instead of offloading goods in Mexico and carrying them on mule carts overland to the Atlantic, ships travel from the Pacific to the Atlantic via the Panama Canal. And ships too large for the canal offload their containers onto a railroad that crosses the Isthmus of Panama to be met by another container ship.⁶⁵

Trade routes represent the attempts of countries to overcome economic and social imbalances created in part by the influence of geography. The majority of world trade is among the most industrialized and industrializing countries of Europe, North America, and Asia. It is no surprise that the trade flow, as depicted in Map 8 at the end of this chapter, links these major trading areas.

Communication Links An underpinning of all commerce is effective communications—knowledge of where goods and services exist and where they are needed and the ability to communicate instantaneously across vast distances. Continuous improvements in electronic communications have facilitated the expansion of trade. First came the telegraph, then the telephone, television, satellites, mobile phones,⁶⁶ the computer, the Internet, and combinations of them all.⁶⁷ Map 5 in the following pages illustrates the importance of fiber optic cable and satellites in providing global communications. Each revolution in technology has had a profound effect on human conditions, economic growth, and the manner in which commerce

LO8

Communication infrastructures are an integral part of international commerce

⁶⁵“Panama Canal Expansion Gets Environmental Approval,” *Journal of Commerce Online*, November 13, 2007.

⁶⁶“Mobil Marvels, A Special Report on Telecoms in Emerging Markets,” *The Economist*, September 26, 2009, pp. 1–19.

⁶⁷Rajesh Veeraraghavan, Naga Yasodhar, and Kentaro Toyama, “Warana Unwired: Replacing PCs with Mobile Phones in a Rural Sugar Cane Cooperative,” *Information Technologies & International Development* 5, no. 1 (2009), pp. 81–95.

functions. Each new communications technology has spawned new business models; some existing businesses have reinvented their practices to adapt to the new technology, while other businesses have failed to respond and thus ceased to exist. The Internet and mobile phone revolutions will be no different; they too affect human conditions, economic growth, and the manner in which commerce operates. As we discuss in subsequent chapters, the combination of the Internet and the dramatic increase in the mobile phone subscribers worldwide has already begun to shape how international business is managed. However, as the combinations of new technologies permeate the fabric of the world's cultures, the biggest changes are yet to come!⁶⁸

⁶⁸Ben Charny, "Steve Jobs Reveals New iPad Device," *The Wall Street Journal*, January 27, 2010, online.

Summary

One British authority admonishes foreign marketers to study the world until "the mere mention of a town, country, or river enables it to be picked out immediately on the map." Although it may not be necessary for the student of foreign marketing to memorize the world map to that extent, a prospective international marketer should be reasonably familiar with the world, its climate, and topographic differences. Otherwise, the important marketing characteristics of geography could be completely overlooked when marketing in another country. The need for geographical and historical knowledge goes deeper than being able to locate continents and their countries. Geographic hurdles must be recognized as having a direct effect on marketing and the related activities of communications and distribution. For someone who has never been in a tropical rainforest with an annual rainfall of at least 60 inches (and sometimes more than 200 inches), anticipating the need for protection against high humidity is difficult. Likewise, someone who has never encountered the difficult problems caused by dehydration in constant 100-degree-plus heat in

the Sahara region will find them hard to comprehend. Indirect effects from the geographical ramifications of a society and culture ultimately may be reflected in marketing activities. Many of the peculiarities of a country (i.e., peculiar to the foreigner) would be better understood and anticipated if its history and geography were studied more closely. Without a historical understanding of a culture, the attitudes within the marketplace may not be fully understood.

Aside from the simpler and more obvious ramifications of climate and topography, history and geography exert complex influences on the development of the general economy and society of a country. In this case, the study of history and geography is needed to provide the marketer with an understanding of why a country has developed as it has rather than as a guide for adapting marketing plans. History and geography are two of the environments of foreign marketing that should be thoroughly understood and that must be included in foreign marketing plans to a degree commensurate with their influence on marketing effort.

Key Terms

Opium wars
Taiping rebellion
Confucian philosophy

Manifest destiny
Monroe doctrine
Roosevelt corollary

Expropriation
Greenhouse-gas
emissions

Sustainable development

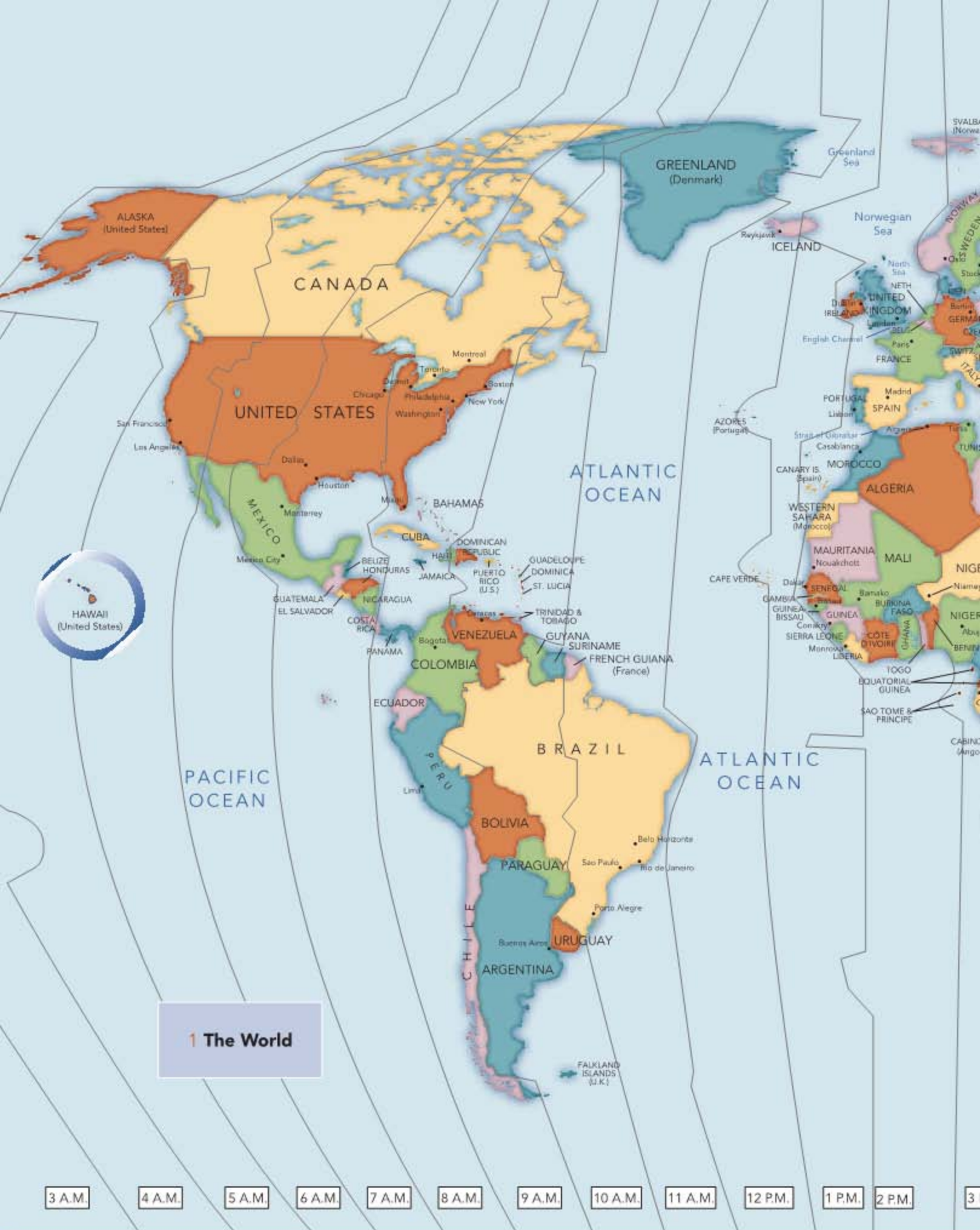
Questions

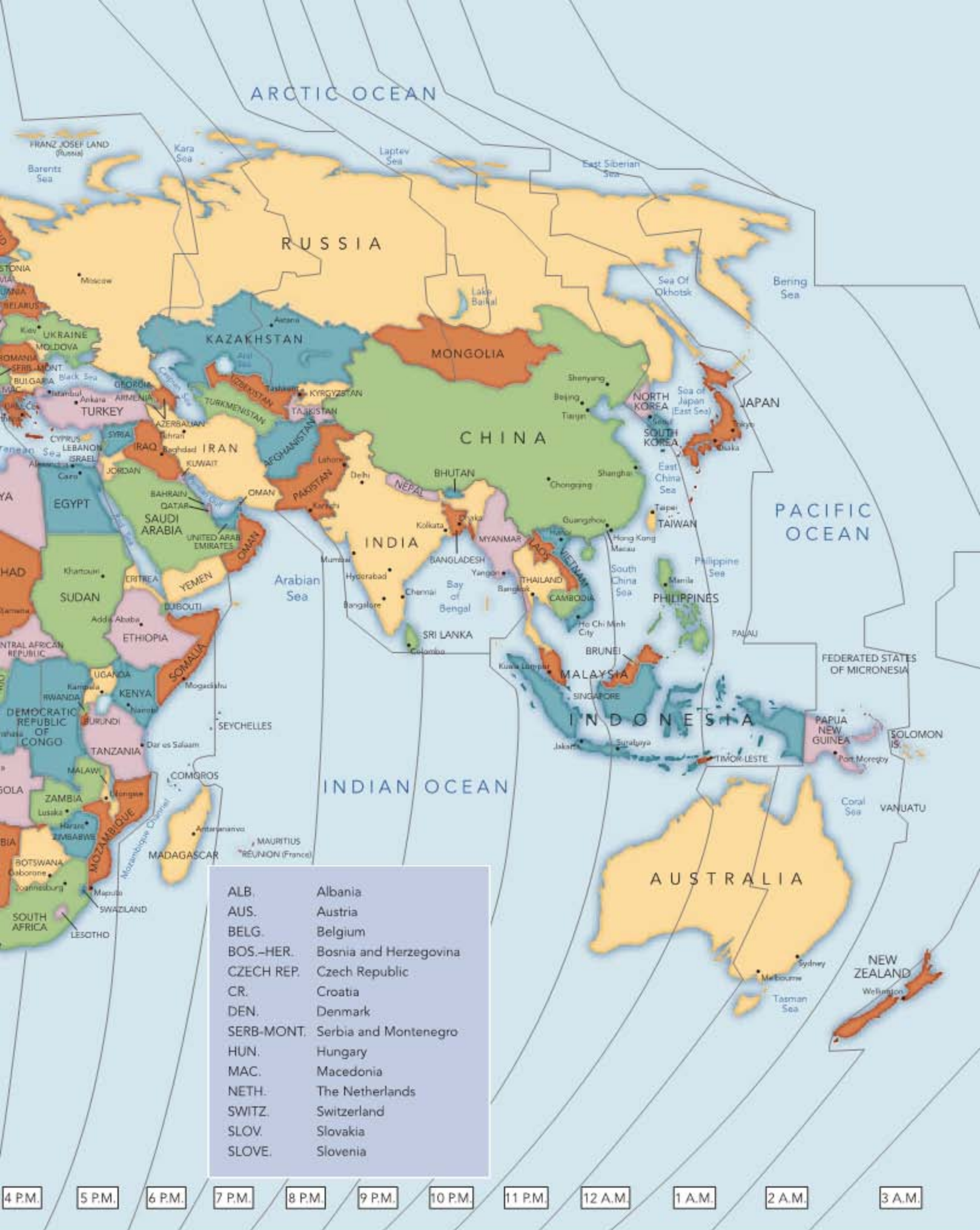
1. Define the key terms listed above.
2. Why study geography in international marketing?
3. Why study a country's history?
4. How does an understanding of history help an international marketer?
5. Why is there a love-hate relationship between Mexico and the United States?
6. Some say the global environment is a global issue rather than a national one. What does this mean?
7. Pick a country and show how employment and topography affect marketing within the country.
8. Pick a country, other than Mexico, and show how significant historical events have affected the country's culture.
9. Discuss the bases of world trade. Give examples illustrating the different bases.

10. The marketer "should also examine the more complex effect of geography on general market characteristics, distribution systems, and the state of the economy." Comment.
11. The world population pattern is shifting from rural to urban areas. Discuss the marketing ramifications.
12. Select a country with a stable population and one with a rapidly growing population. Contrast the marketing implications of these two situations.
13. "World trade routes bind the world together." Discuss.
14. Discuss how your interpretations of Manifest Destiny and the Monroe Doctrine might differ from those of a native of Latin America.
15. The telegraph, the telephone, television, satellites, the computer, mobile phones, and the Internet have all had an effect on how international business operates. Discuss how each of these communications innovations affects international business management.

world maps

- 
- 1 The World
 - 2 Global Climate
 - 3 Oil and Gas Production and Consumption
 - 4 Water
 - 5 Global Communications
 - 6 Global Terrorism
 - 7 Religions
 - 8 Global Economy and World Trade





2 Global Climate



Winds and currents
 The winds and currents that circulate across the surface of the planet act as a global heat exchange mechanism, transferring warmth from the tropics, which receive the most heat from the Sun, toward the cold polar regions. If air in one region of the globe is heated above the temperature of the surrounding air, it becomes less dense and rises. Cooler, denser air in another part of the atmosphere sinks—a constant cycle of heat exchange and air circulation, known as the prevailing winds. The surface currents of the ocean, which extend to depths of several hundred meters, are influenced by global wind patterns. The transfer of warm water polewards can have a strong influence on neighboring continents—the warm Gulf Stream in the Atlantic, for example, keeps northwestern Europe free of ice.

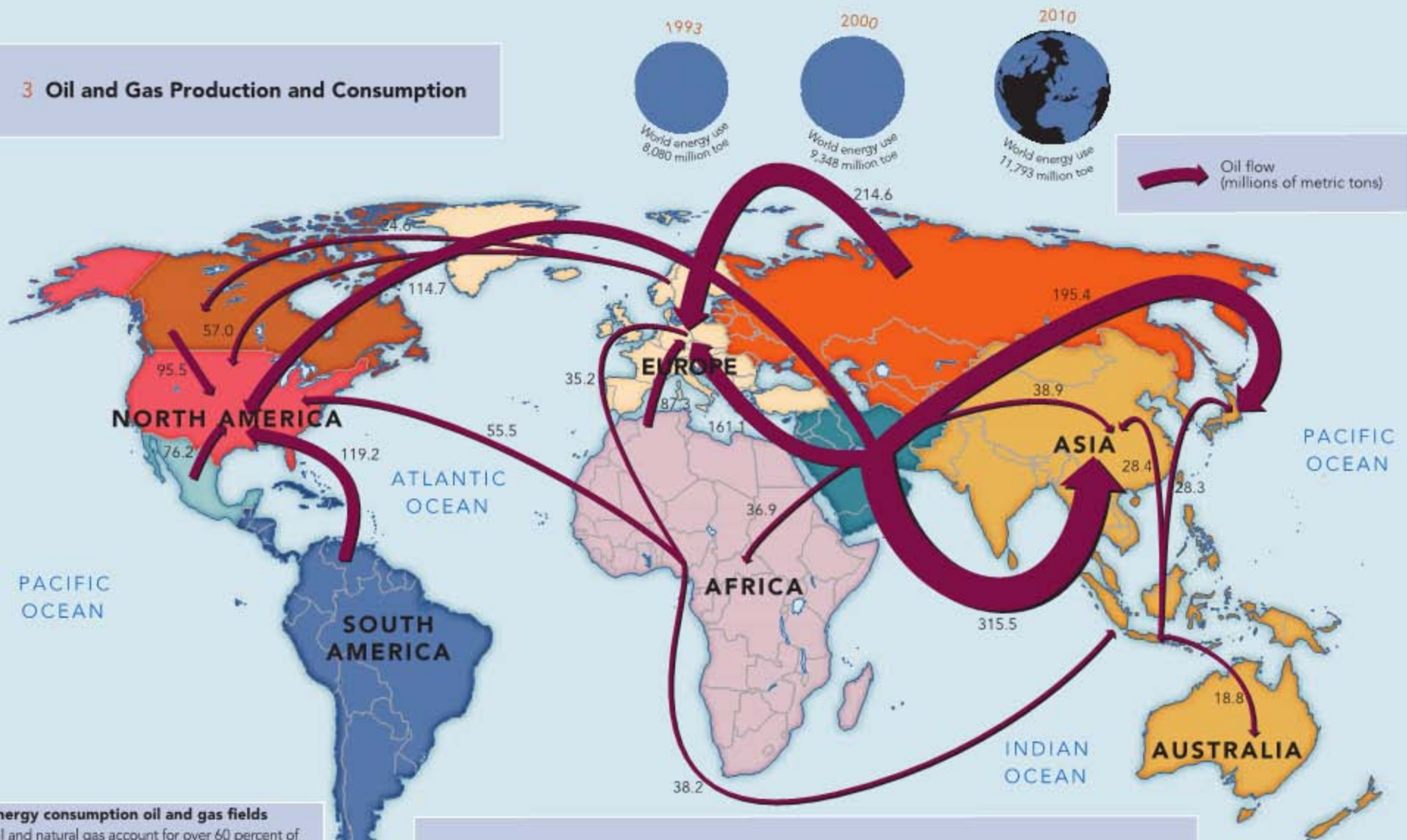


Climate Zones

- Ice cap
- Tundra
- Subarctic
- Highlands
- Marine west coast
- Humid continental
- Humid subtropical
- Mediterranean
- Arid
- Semi-arid
- Tropical wet and dry
- Tropical wet

→ Warm current
→ Cool current

3 Oil and Gas Production and Consumption



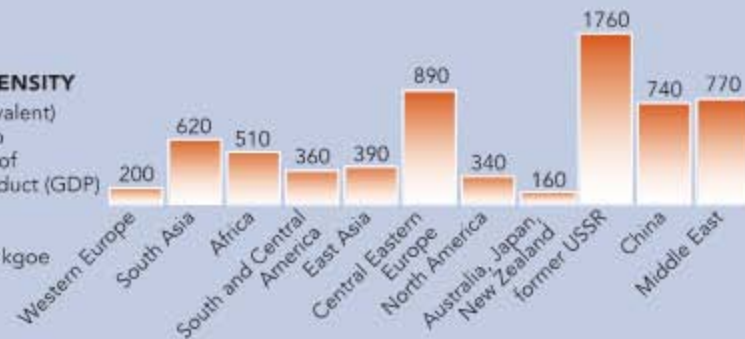
Energy consumption oil and gas fields

Oil and natural gas account for over 60 percent of energy consumption in the United States, and slightly less than that for the remainder of the world. Oil production peaked in the United States in 1970, and is expected to peak worldwide in the next ten years. Thus, a scarcity premium in the price of oil observed in 2004 may foretell tighter supplies in the future if demand growth continues unabated. Natural gas may be more plentiful than oil, but gas is costlier to transport, other than by pipeline, so there is much less world trade of it than there is for oil. Supply estimates have risen in recent decades as more effort has been made to find and market natural gas; and prices were unexpectedly low for most of the 1980s and 1990s. Gas is also the cheapest feedstock for making hydrogen, possibly the dominant energy carrier of the future.

2010 ENERGY INTENSITY

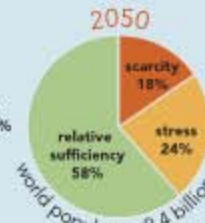
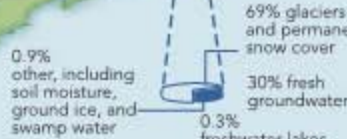
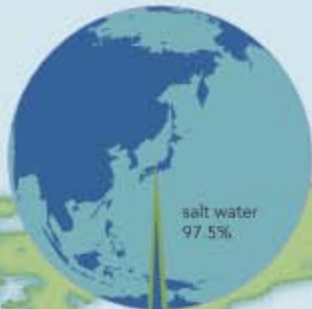
kgoe (kg of oil equivalent) of energy needed to produce US \$1,000 of Gross Domestic Product (GDP) projected 1996

World average: 370 kgoe

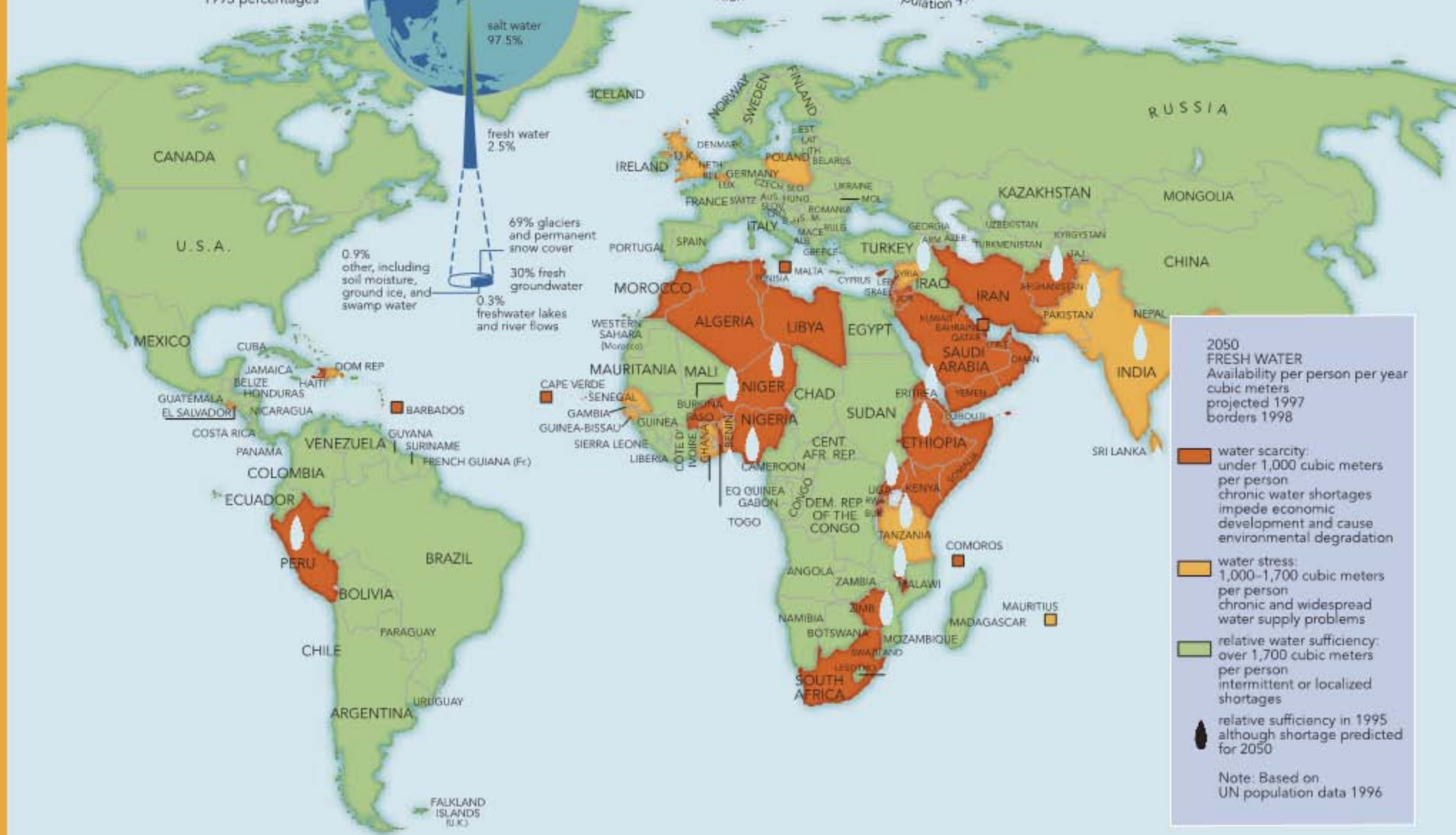


4 Water

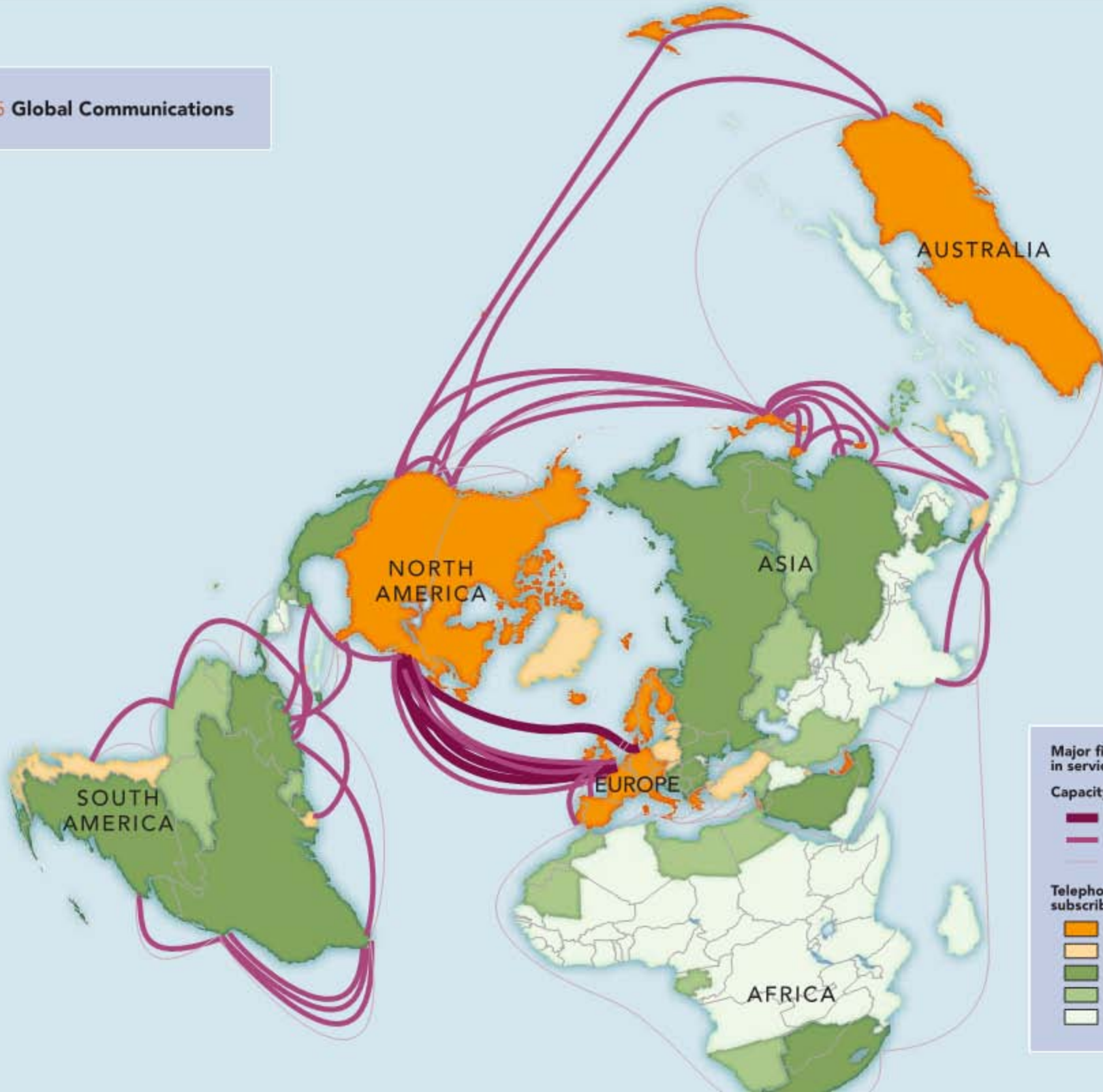
THE WORLD'S WATER
1993 percentages



WATER SHORTAGES
proportion of world's population
facing water shortages
1995 and 2050



5 Global Communications



6 Global Terrorism

NORTH AMERICA

For decades North America was practically free from terrorist attacks. Huge casualties and national shock from the events of 9/11 instigated the war on terrorism.

WESTERN EUROPE

Several countries have participated in the U.S.-led war on terrorism—but are concerned that they, too, have become actual or potential al Qaeda targets as a result.

EURASIA

This is a key arena in the war on terrorism, with many countries receiving financial and military aid from the United States. Reaction from some Islamic groups is evident.

ASIA

Conflict over Kashmir, tensions in Afghanistan and Pakistan, and al Qaeda presence in Southeast Asia combine to make this region a pivot in the war on terrorism.

AFRICA

The presence of failed states and poverty raises concerns that some countries will become training and recruitment grounds for terrorist groups targeting Israel and the United States.

MIDDLE EAST

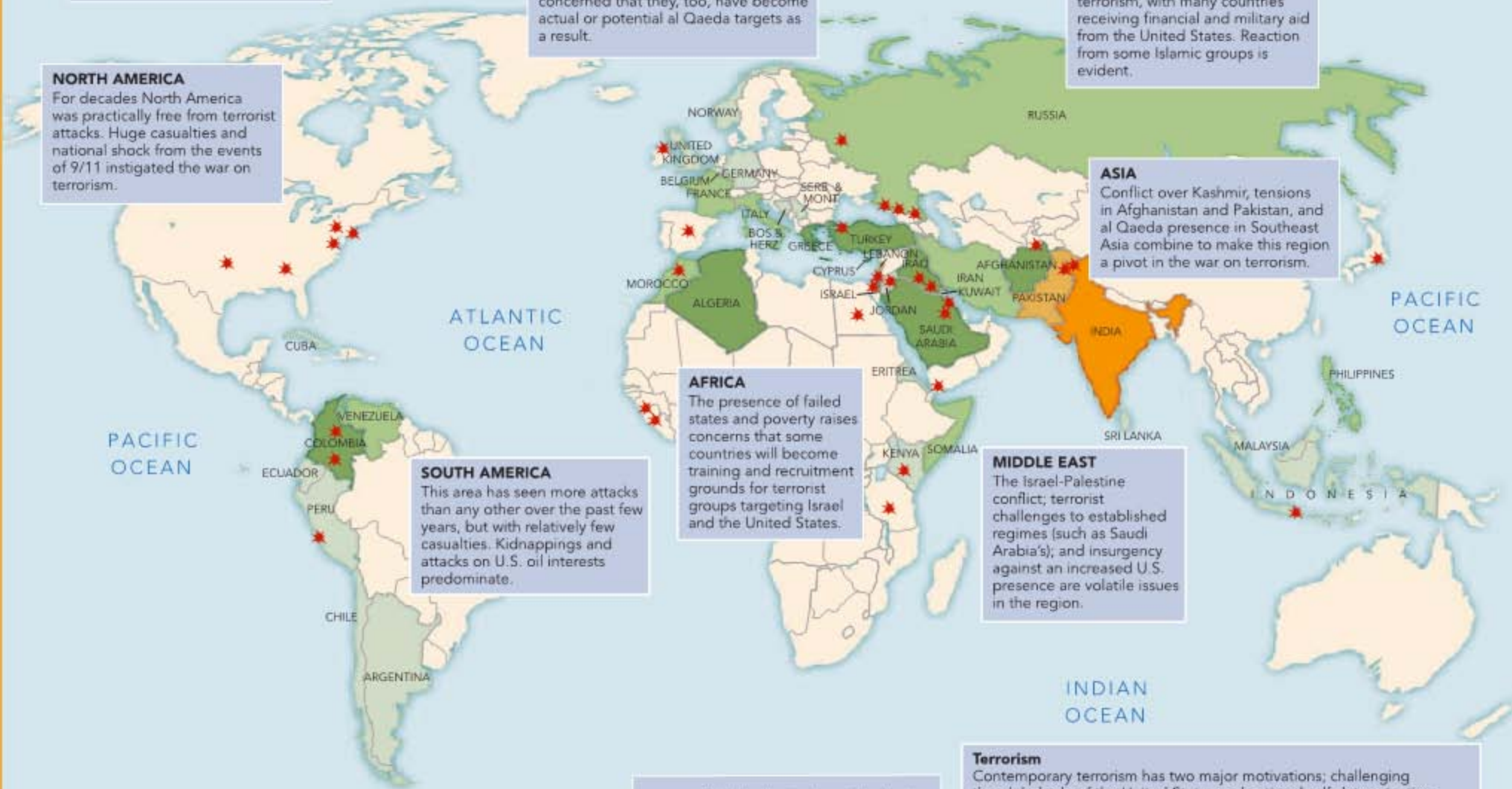
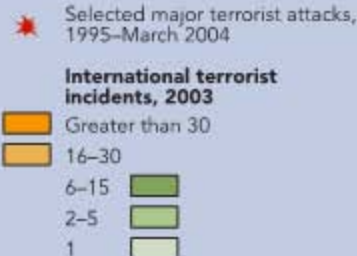
The Israel-Palestine conflict; terrorist challenges to established regimes (such as Saudi Arabia's); and insurgency against an increased U.S. presence are volatile issues in the region.

SOUTH AMERICA

This area has seen more attacks than any other over the past few years, but with relatively few casualties. Kidnappings and attacks on U.S. oil interests predominate.

Terrorism

Contemporary terrorism has two major motivations; challenging the global role of the United States and national self-determination. The violent challenge to the global presence of the United States by al Qaeda is a relatively recent development that transcends state politics. A worldwide network of terrorist cells, more or less affiliated with al Qaeda, has targeted buildings and activities that represent Western economic, political, and cultural activity. The suicide attacks of September 11, 2001, targeted symbols of U.S. political and economic power. The bombing of a hotel in Bali targeted Australian youths on holiday in a Muslim country. A more traditional form of terrorism is ethno-national territorial politics within states. For example, terrorist activity in India, Pakistan, and the Middle East is dominated by the goal of national separation or self-determination.



7 Religions



8 Global Economy and World Trade

Trade flow

The circling paths of trade between continents show just how interconnected the world's economies truly are. The richest countries, such as those in North America, western Europe, and the Far East, trade mostly with each other, exchanging different varieties of similar goods such as automobiles. However, trade also flows between higher- and lower-income regions. In those cases, the high-income countries typically provide more complex goods, such as electronic equipment, while low-income countries provide primary goods such as minerals. Smaller, poorer countries are more likely to be dependent on exporting a single commodity, such as coffee or petroleum. In general, poor, labor-abundant countries tend to export labor-intensive goods, such as textiles and shoes, and the countries rich in arable land will export foods such as grains.



Chapter 4

Cultural Dynamics in Assessing Global Markets



CHAPTER OUTLINE

Global Perspective: Equities and eBay—Culture Gets in the Way

Culture's Pervasive Impact

Definitions and Origins of Culture

- Geography
- History
- The Political Economy
- Technology
- Social Institutions

Elements of Culture

- Cultural Values
- Rituals
- Symbols
- Beliefs
- Thought Processes
- Cultural Sensitivity and Tolerance

Cultural Change

- Cultural Borrowing
- Similarities: An Illusion
- Resistance to Change
- Planned and Unplanned Cultural Change

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 4:

- LO1** The importance of culture to an international marketer
- LO2** The origins of culture
- LO3** The elements of culture
- LO4** The impact of cultural borrowing
- LO5** The strategy of planned change and its consequences

Global Perspective

EQUITIES AND eBAY—CULTURE GETS IN THE WAY

Two trillion dollars! That's about 200 trillion yen. Either way you count it, it's a lot of money. American brokerage houses such as Fidelity Investments, Goldman Sachs, and Merrill Lynch rushed new investment products and services to market in Japan to try to capture the huge capital outflow expected from 10-year time deposits, then held in the Japanese postal system. Liberalization of Japan's capital markets in recent years now gives Japanese consumers more freedom of choice in their investments. Post office time deposits still yield about a 2 percent return in Japan, and bank savings yields have been around 0. By American e-trading standards, that means an electronic flood of money moving out of the post offices and into the stock markets. Right?

However, Japan is not America. There is no American-style risk-taking culture among Japanese investors. The volume of stock trading in Japan is about one-sixth that of the United States. In Japan, only 12 percent of household financial assets are directly invested in stocks and a mere 2 percent in mutual funds. In contrast, about 55 percent of U.S. households own stock. Says one analyst, "Most of the population [in Japan] doesn't know what a mutual fund is." So will the flood be just a trickle? And what about online stock trading? Internet use in Japan has burgeoned—there are now some 88 million users in Japan. That's about the same percentage as in the United States. But the expected deluge into equities has been a dribble. Merrill Lynch and others are cutting back staff now as fast as they built it just a couple of years ago.

Making matters worse, for the Japanese, the transition into a more modern and trustworthy securities market has not been a smooth one. In 2005, an astounding transaction took place on the Tokyo Stock Exchange (TSE); instead of placing a small order of 1 share for 610,000 yen of J-Com, a trader with Mizuho Securities Co. mistakenly placed a sell order for 610,000 shares for 1 yen. Mizuho ended up losing 40 billion yen (\$344 million) due to a simple computer

glitch that ultimately led to the resignation of TSE president Takuo Tsurushima. Ouch!

A French firm is trying to break through a similar aversion to both e-trading and equities in France. That is, only about 32 million people use the Internet in France, and one-third of that number own stocks. The French have long shied away from stock market investments, seeing them as schemes to enrich insiders while fleecing novices. After the Enron (2001) and Lehman Bros. (2008) debacles in the United States, you could almost hear the chortling in the sidewalk cafés there. But even in France, investment preferences are beginning to change, especially since the real estate market has turned. At the same time, the liberalization of Europe's financial services sector is bringing down transaction costs for institutional and retail investors alike.

eBay, the personal online auction site so successful in the United States, is running into comparable difficulties in both Japan and France. The lower rate of Internet use in France is just part of the problem. For the Japanese, it is embarrassing to sell castoffs to anyone, much less buy them from strangers. Garage sales are unheard of. In France, eBay founder Pierre Omidyar's country of birth, the firm runs up against French laws that restrict operations to a few government-certified auctioneers.

Based on our knowledge of the differences in these cultural values between the United States and both Japan and France, we should expect a slower diffusion of these high-tech Internet services in the latter two countries. E-trading and e-auctions have both exploded on the American scene. However, compared with those in many other countries, U.S. investors are averse to neither the risk and uncertainties of equity investments nor the impersonal interactions of online transactions.

Sources: William D. Echikson, "Rough Crossing for eBay," *BusinessWeek E.Biz*, February 7, 2000, p. EB48; Sang Lee, "Japan and the Future of Electronic Trading," *Securities Industry News*, November 5, 2007; *World Development Indicators*, World Bank, 2010.

LO1

The importance of culture to an international marketer

Culture deals with a group's design for living. It is pertinent to the study of marketing, especially international marketing. If you consider the scope of the marketing concept—the satisfaction of consumer needs and wants at a profit—the successful marketer clearly must be a student of culture. For example, when a promotional message is written, symbols recognizable and meaningful to the market (the culture) must be used. When designing a product, the style, uses, and other related marketing activities must be made culturally acceptable (i.e., acceptable to the present society) if they are to be operative and meaningful. In fact, culture is pervasive in all marketing activities—in pricing, promotion, channels of distribution, product, packaging, and styling—and the marketer's efforts actually become a part of the fabric of culture. How such efforts interact with a culture determines the degree of success or failure of the marketing effort.

The manner in and amount which people consume, the priority of needs and wants they attempt to satisfy, and the manner in which they satisfy them are functions of their culture that temper, mold, and dictate their style of living. Culture is the human-made part of human environment—the sum total of knowledge, beliefs, art, morals, laws, customs, and any other capabilities and habits acquired by humans as members of society.¹

Markets constantly change; they are not static but evolve, expand, and contract in response to marketing effort, economic conditions, and other cultural influences. Markets and market behavior are part of a country's culture. One cannot truly understand how markets evolve or how they react to a marketer's effort without appreciating that markets are a result of culture. Markets are the result of the three-way interaction of a marketer's efforts, economic conditions, and all other elements of the culture. Marketers are constantly adjusting their efforts to cultural demands of the market, but they also are acting as *agents of change* whenever the product or idea being marketed is innovative. Whatever the degree of acceptance, the use of something new is the beginning of cultural change, and the marketer becomes a change agent.

This is the first of four chapters that focus on culture and international marketing. A discussion of the broad concept of culture as the foundation for international marketing is presented in this chapter. The next chapter, "Culture, Management Style, and Business Systems," discusses culture and how it influences business practices and the behaviors and thinking of managers. Chapters 6 and 7 examine elements of culture essential to the study of international marketing: the political environment and the legal environment.

This chapter's purpose is to heighten the reader's sensitivity to the dynamics of culture. It is neither a treatise on cultural information about a particular country nor a thorough marketing science or epidemiological study of the various topics. Rather, it is designed to emphasize the importance of cultural differences to marketers and the need to study each country's culture(s) and all its origins and elements, as well as point out some relevant aspects on which to focus.

Culture's Pervasive Impact Culture affects every part of our lives, every day, from birth to death, and everything in between.² It affects how we spend money and how we consume in general. It even affects how we sleep. For example, we are told that Spaniards sleep less than other Europeans, and Japanese children often sleep with their parents. You can clearly see culture operating in the birthrate tables in Exhibit 4.1. When you look across the data from the three countries, the gradual declines beginning in the 1960s are evident. As countries move from agricultural to industrial to services economies, birthrates decline. Immediate causes may be government policies and birth control technologies, but a global change in values is also occurring. Almost everywhere, smaller families are becoming favored. This

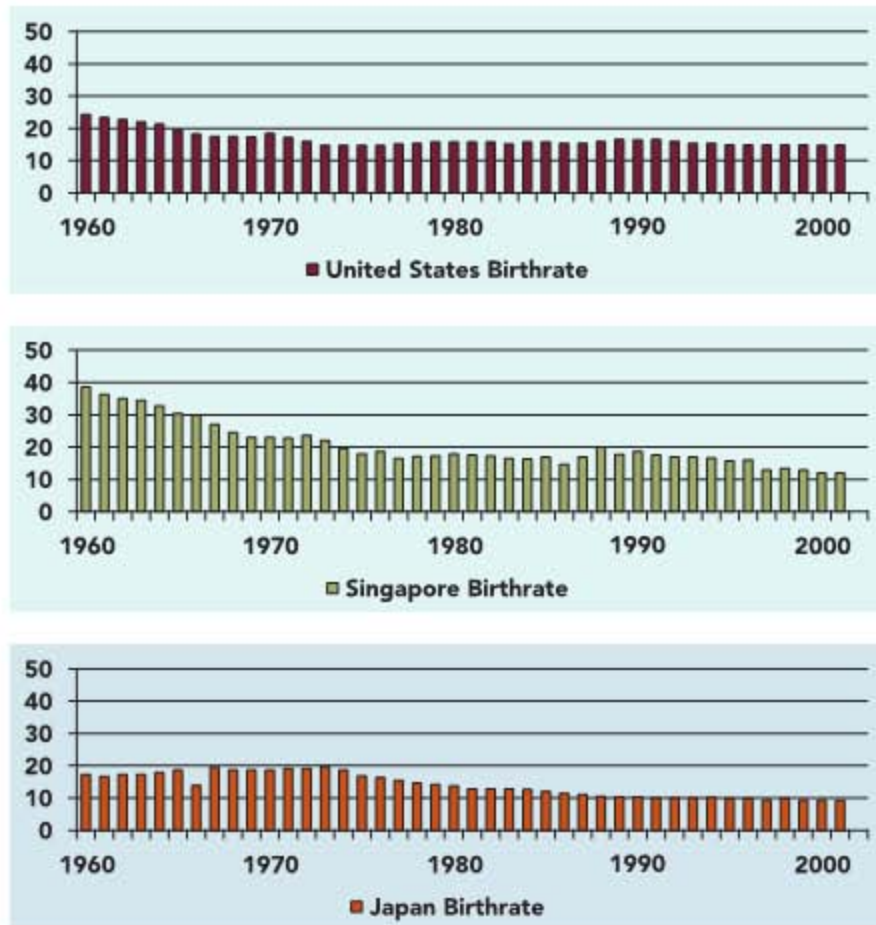
¹An interesting Web site that has information on various cultural traits, gestures, holidays, language, religions, and so forth is www.culturegrams.com.

²A most important summary of research in the area of culture's impact on consumption behavior is Eric J. Arnould and Craig J. Thompson, "Consumer Culture Theory (CCT): Twenty Years of Research," *Journal of Consumer Research* 3, no. 2 (March 2005), pp. 868–82.

Exhibit 4.1

Birthrates (per 1,000 women)

Source: World Bank, World Development Indicators, 2010. Copyright © 2010 by World Bank. Reprinted with permission of World Bank via Copyright Clearance Center.



cultural change now leads experts to predict that the planet's population may actually begin to decline after 2040 unless major breakthroughs in longevity intervene, as some predict.

But a closer look at the tables reveals even more interesting consequences of culture. Please notice the little peaks in 1976 and 1988 in the Singapore data. The same pattern can be seen in birthrate data from Taiwan. Those “extra” births are not a matter of random fluctuation. In Chinese cultures, being born in the Year of the Dragon (12 animals—dogs, rats, rabbits, pigs, etc.—correspond to specific years in the calendar) is considered good luck. Such birthrate spikes have implications for sellers of diapers, toys, schools, colleges, and so forth in successive years in Singapore. However, culture-based superstitions³ have an even stronger influence on the birthrates in Japan, as shown in Exhibit 4.1. A one-year 20 percent drop in Japanese fertility rates in 1966 was caused by a belief that women born in the Year of the Fire Horse, which occurs every 60 years, will lead unhappy lives and perhaps murder their husbands. This sudden and substantial decline in fertility, which has occurred historically every 60 years since Japan started keeping birth records, reflects abstinence, abortions, and birth certificate fudging. This superstition has resulted in the stigmatization of women born in 1966 and had a large impact on market potential for a wide variety of consumer goods and services in Japan. It will be interesting to see how technological innovations and culture will interact in Japan in 2026, the next Year of the Fire Horse.⁴

³We know that superstitions can influence other kinds of consumers judgments as well. See Thomas Kramer and Lauren Block, “Conscious and Nonconscious Components of Superstitious Beliefs in Judgment and Decision Making,” *Journal of Consumer Research* 34, no. 2 (2008), pp. 783–93.

⁴Robert W. Hodge and Naohiro Ogawa, *Fertility Change in Contemporary Japan* (Chicago: University of Chicago Press, 1991).

Exhibit 4.2**Patterns of Consumption
(annual per capita)**Source: EuroMonitor International,
2010.

Country	Cut Flowers (stems)	Chocolate (kg)	Fish and Seafood (kg)	Dried Pasta (kg)	Wine (L)	Tobacco (sticks)
France	81	3.9	6.2	5.7	26.9	845 (–25%)*
Germany	120	7.8	4.6	5.9	21.5	1,019 (–34%)
Italy	87	2.6	8.8	18.5	26.2	1,532 (–11%)
Netherlands	125	4.8	25.0	2.7	20.7	837 (–8%)
Spain	33	2.0	20.2	3.9	10.3	2,133 (–8%)
United Kingdom	48	10.5	12.4	1.5	18.2	754 (–15%)
Japan	110	1.1	38.2	1.5	4.7	1,875 (–16%)
United States	75	5.0	5.2	3.1	6.9	1,106 (–12%)

*Five-year growth rate.

Culture's influence is also illustrated in the consumption data presented in Exhibit 4.2. The focus there is on the six European Union countries, but data from the two other major markets of affluence in the world—Japan and the United States—are also included. The products compared are those that might be included in a traditional (American) romantic dinner date.

First come the flowers and candy. The Dutch are the champion consumers of cut flowers, and this particular preference for petals will be explored further in the pages to come. The British love their chocolate. Perhaps the higher consumption rate there is caused by Cadbury's³ advertising, or perhaps the cooler temperatures have historically allowed for easier storage and better quality in the northern countries. At least among our six EU countries, per capita chocolate consumption appears to decline with latitude.

In Europe, the Dutch, then Spaniards, are the most likely to feast on fish. Both are still well behind the Japanese preference for seafood. From the data in the table, one might conclude that being surrounded by water in Japan explains the preference for seafood. However, what about the British? The flat geography in England and Scotland allows for the efficient production of beef, and a bit later in this section, we consider the consequences of their strong preference for red meat. The Italians eat more pasta—not a surprise. History is important. The product was actually invented in China, but in 1270, Marco Polo is reputed to have brought the innovation back to Italy, where it has flourished. Proximity to China also explains the high rate of Japanese noodle (but not dried pasta) consumption.

How about alcohol and tobacco? Grapes grow best in France and Italy, so a combination of climate and soil conditions explains at least part of the pattern of wine consumption seen in Exhibit 4.2. Culture also influences the laws, age limits, and such related to alcohol. The legal environment also has implications for the consumption of cigarettes. Indeed, the most striking patterns in the table are not the current consumption numbers; the interesting data are the five-year growth rates. Demand is shrinking remarkably fast almost everywhere. These dramatic declines in consumption represent a huge cultural shift that the world seldom sees.

Any discussion of tobacco consumption leads immediately to consideration of the consequences of consumption. One might expect that a high consumption of the romance products—flowers, candy, and wine—might lead to a high birthrate. Reference to Exhibit 4.3 doesn't yield any clear conclusions. The Germans have some of the highest consumption levels of the romantic three but the lowest birthrate among the eight countries.

Perhaps the Japanese diet's emphasis on fish yields them the longest life expectancy. But length of life among the eight affluent countries represented in the table shows little variation. How people die, however, does vary substantially across the countries. The influence

³See Cadbury's Web site for the history of chocolate, www.cadbury.co.uk. Chocolate is also an important product in Switzerland, where the consumption per capita is more than 12 kg. The mountain climate is cooler, and of course, Nestlé has corporate headquarters there.

Finding horse or donkey as your entrée would not be romantic or even appetizing in most places around the world. Even though horse consumption is generally declining in France, here in Paris you can still buy a steed steak at the local bouchers chevaleries. Escargot oui, Eeyore oui! And we note a recent article in *The Wall Street Journal* advocating the consumption of dog in the United States, including a recipe. Yikes!⁶



of fish versus red meat consumption on the incidence of heart problems is easy to see. The most interesting datum in the table is the extremely high incidence of stomach cancer in Japan. The latest studies suggest two culprits: (1) salty foods such as soy sauce and (2) the bacterium *Helicobacter pylori*. The latter is associated with the unsanitary conditions prevalent in Japan immediately after World War II, and it is still hurting health in Japan today. Finally, because stomach cancer in Japan is so prevalent, the Japanese have developed the most advanced treatment of the disease, that is, both procedures and instruments. Even though the death rate is highest, the treatment success rate is likewise the highest in Japan. Whether you are in Tacoma, Toronto, or Tehran, the best medicine for stomach cancer may be a ticket to Tokyo. Indeed, this last example well demonstrates that culture not only affects consumption; it also affects production (of medical services in this case)!

The point is that culture matters.⁷ It is imperative for foreign marketers to learn to appreciate the intricacies of cultures different from their own if they are to be effective in foreign markets.

⁶Jonathan Safran Foer, "Let Them Eat Dog," *The Wall Street Journal*, October 31, 2009, p. W10.

⁷Lawrence E. Harrison and Samuel P. Huntington (eds.), *Culture Matters* (New York: Basic Books, 2000).

Exhibit 4.3

Consequences of Consumption

Country	Birthrate (per 100,000)	Life Expectancy	Death Rate per 100,000			
			Ischemic Heart Disease	Diabetes Mellitus	Lung Cancer	Stomach Cancer
France	12.8	81.4	71.2	21.8	45.3	8.1
Germany	8.1	80.1	176.2	29.8	50.1	13.4
Italy	9.6	81.4	134.8	31.4	58.9	18.8
Netherlands	10.9	80.7	76.2	22.2	61.4	8.9
Spain	10.6	81.0	87.1	23.0	47.1	13.0
United Kingdom	13.0	79.6	162.6	10.8	54.7	9.2
Japan	8.4	82.7	55.8	10.3	46.5	38.1
United States	13.9	78.1	172.8	25.3	53.6	4.2

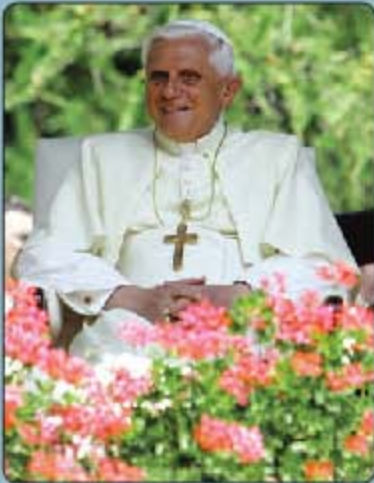
Source: EuroMonitor 2010.



The Floriad, the biggest exhibition of flowers on earth, happens once every decade. You can go to the next one in 2012.



Outside the Aalsmeer Flower Auction—notice the jet landing at nearby Schiphol Airport, which serves both Amsterdam and Aalsmeer.



The Pope in St. Peter's Square on Easter Sunday surrounded by Dutch flowers.

We all love flowers. But for the Dutch, flowers are more important than that. For them, it's more like a national fascination, fixation, or even a fetish for flowers. **Why?**

The answer is an instructive story about culture and international markets, the broader subjects of this chapter. The story starts with geography, goes through the origins and elements of culture, and ends with the Dutch being the masters of the exhibition, consumption, and production of flowers.

Geography. The rivers and the bays make the Netherlands a great trading country. But the miserable weather, rain, and snow more than 200 days per year make it a colorless place, gray nearly year-round. The Flying Dutchmen not only went to the Spice Islands for spice for the palate; they also went to the eastern Mediterranean for spice for the eyes. The vibrant colors of the tulip first came to Europe from the Ottoman Empire on a Dutch ship in 1561.

History. The Dutch enthusiasm for the new “visual drug” was great. Its most potent form was, ironically, the black tulip. Prices exploded, and speculators bought and sold promissory notes guaranteeing the future delivery of black tulip bulbs. This derivatives market yielded prices in today's dollars of \$1 million or more for a single bulb, enough to buy a 5-story house in central Amsterdam today. Not only did the tulip mania create futures markets, it also caused the first great market bust in recorded history. Prices plummeted when the government took control in 1637. Now at the Amsterdam flower market, you can buy a black tulip bulb for about a dollar!



The Amsterdam flower market—a busy place for local consumers and tourists.



Four hundred years later, the one-dollar black tulip is available in the Amsterdam flower market.



A view of a Dutch harbor with trading ships circa 1600.



Inside Aalsmeer, 150 football fields of cut flowers, 20 million per day, are readied for auction.



The bidders in four huge auction rooms pay attention to the "clock" as high starting prices tick down. The wholesale buyer that stops the clock pays the associated price in this the archetypical "Dutch auction."

Technology and Economics.

The technology in the story comes in the name of Carolus Clusius, a botanist who developed methods for manipulating the colors of the tulips in the early 1600s. This manipulation added to their appeal and value, and the tulip trade became international for the Dutch.

Social Institutions. Every Easter Sunday, the Pope addresses the world at St. Peter's Square in Rome reciting, "Bedankt voor bloemen." Thus, he thanks the Dutch nation for providing the flowers for this key Catholic ritual. The Dutch government, once every tenth year, sponsors the largest floriculture exhibition in the world, the Floriad. You can go next in 2012. Finally, at the Aalsmeer Flower Auction near Amsterdam, the prices are set for all flowers in all markets around the world. The Dutch remain the largest exporters of flowers (60 percent global market share), shipping them across Europe by trucks and worldwide by air freight.

Cultural Values. The high value the Dutch place on flowers is reflected in many ways, not the least of which is their high consumption rate, as seen in Exhibit 4.2.

Aesthetics as Symbols. Rembrandt Van Rijn's paintings, including his most famous *Night Watch* (1642, Rijksmuseum, Amsterdam), reflect a dark palette. Artists generally paint in the colors of their surroundings. A quarter century later, his compatriot Vincent Van Gogh used a similar bleak palette when he worked in Holland. Later, when Van Gogh went to the sunny and colorful south of France, the colors begin to explode on his canvases. And, of course, there he painted flowers!



Outside again at Aalsmeer, trucks are loaded for shipment by land across Europe and airfreight worldwide.



Rembrandt's *Night Watch*.



Van Gogh's *Vase with Fifteen Sunflowers*, painted in the south of France in 1889, and sold to a Japanese insurance executive for some \$40 million in 1987, at the time the highest price ever paid for a single work of art. The Japanese are also big flower consumers—see Exhibit 4.2.



Van Gogh's *Potato Eaters*, painted in The Netherlands in 1885.

CROSSING BORDERS 4.1

Human Universals: The Myth of Diversity?

Yes, culture's influence is pervasive. But as anthropologist Donald E. Brown correctly points out, we are all human. And since we are all of the same species, we actually share a great deal. Here's a few of the hundreds of traits we share:

- Use metaphors
- Have a system of status and roles
- Are ethnocentric
- Create art
- Conceive of success and failure
- Create groups antagonistic to outsiders
- Imitate outside influences
- Resist outside influences

- Consider aspects of sexuality private
- Express emotions with face
- Reciprocate
- Use mood-altering drugs
- Overestimate objectivity of thought
- Have a fear of snakes
- Recognize economic obligations in exchanges of goods and services
- Trade and transport goods

Indeed, the last two suggest that we might be characterized as the "exchanging animal."

Source: Donald E. Brown, *Human Universals* (New York: McGraw-Hill, 1991)

Definitions and Origins of Culture

LO2

The origins of culture

There are many ways to think about culture. Dutch management professor Geert Hofstede refers to culture as the "software of the mind" and argues that it provides a guide for humans on how to think and behave; it is a problem-solving tool.⁸ Anthropologist and business consultant Edward Hall provides a definition even more relevant to international marketing managers: "The people we were advising kept bumping their heads against an invisible barrier. . . . We knew that what they were up against was a completely different way of organizing life, of thinking, and of conceiving the underlying assumptions about the family and the state, the economic system, and even Man himself."⁹ The salient points in Hall's comments are that cultural differences are often invisible and that marketers who ignore them often hurt both their companies and careers. Finally, James Day Hodgson, former U.S. ambassador to Japan, describes culture as a "thicket."¹⁰ This last metaphor holds hope for struggling international marketers. According to the ambassador, thickets are tough to get through, but effort and patience often lead to successes.

Most traditional definitions of **culture** center around the notion that culture is the sum of the *values, rituals, symbols, beliefs, and thought processes* that are *learned and shared* by a group of people,¹¹ then *transmitted* from generation to generation.¹² So culture resides in the individual's mind. But the expression "a culture" recognizes that large collectives of people can, to a great degree, be like-minded.

⁸Geert Hofstede, *Culture's Consequences*, 2nd ed. (Thousand Oaks, CA: Sage, 2001); Susan P. Douglas, "Exploring New Worlds: The Challenge of Global Marketing," *Journal of Marketing*, January 2001, pp. 103–9.

⁹Edward T. Hall, *The Silent Language* (New York: Doubleday, 1959), p. 26.

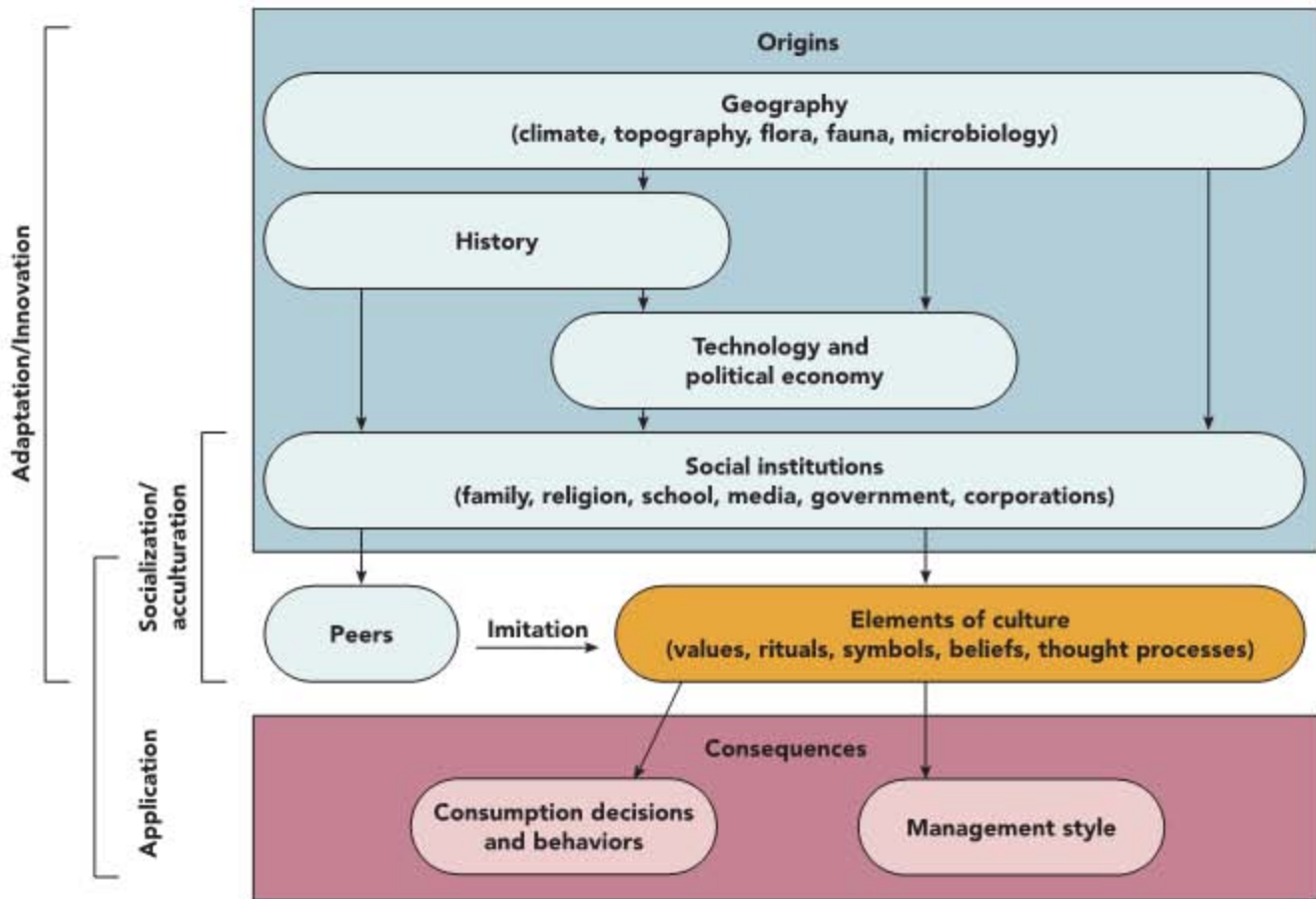
¹⁰James D. Hodgson, Yoshihiro Sano, and John L. Graham, *Doing Business in the New Japan, Succeeding in America's Richest Foreign Market* (Latham, MD: Rowman & Littlefield, 2008).

¹¹Please note that the group may be smaller than that defined by nation. See Rosalie Tung, "The Cross-Cultural Research Imperative: The Need to Balance Cross-Cultural and Intra-National Diversity," *Journal of International Business Studies* 39 (2008), pp. 41–46; Jean-Francois Ouellet, "Consumer Racism and Its Effects on Domestic Cross-Ethnic Product Purchase: An Empirical Test in the United States, Canada, and France," *Journal of Marketing* 71 (2007), pp. 113–28.

¹²Melvin Herskovitz, *Man and His Works* (New York: Alfred A. Knopf, 1952), p. 634. See also Chapter 10, "Culture," in Raymond Scupin and Christopher R. Decorse, *Anthropology: A Global Perspective*, 6th ed. (Englewood Cliffs, NJ: Prentice Hall, 2005).

Exhibit 4.4

Origins, Elements, and Consequences of Culture



The best international marketers will not only appreciate the cultural differences pertinent to their businesses, but they will also understand the origins of these differences. Possession of the latter, deeper knowledge will help marketers notice cultural differences in new markets and foresee changes in current markets of operation. Exhibit 4.4 depicts the several causal factors and social processes that determine and form cultures and cultural differences. Simply stated, humans make *adaptations* to changing environments through *innovation*. Individuals learn culture from social institutions through *socialization* (growing up) and *acculturation* (adjusting to a new culture). Individuals also absorb culture through role modeling, or imitation of their peers. Finally, people make decisions about consumption and production through *application* of their cultural-based knowledge. More details are provided below.

Geography

In the previous chapter, we described the immediate effects of geography on consumer choice. But geography exercises a more profound influence than just affecting the sort of jacket you buy. Indeed, geography (broadly defined here to include climate, topography, flora, fauna, and microbiology) has influenced history, technology, economics, our social institutions, perhaps even the boy-to-girl birth ratio,¹³ and, yes, our ways of thinking.¹⁴ Geographical influences manifest themselves in our deepest cultural values developed

¹³Nicholas Bakalar, "Why Does Latitude Affect Boy-Girl Ratios?" *International Herald Tribune*, April 23, 2009, p. 10.

¹⁴Richard E. Nisbett, *The Geography of Thought: How Asians and Westerners Think Differently . . . and Why* (New York: The Free Press, 2003).

through the millennia, and as geography changes, humans can adapt almost immediately. One sees the latter happening in the new interaction rituals evolving from the HIV/AIDS disaster or more recently the SARS outbreak in China. The ongoing cultural divides across the English Channel or the Taiwan Strait are also representative of geography's historical salience in human affairs.

The ideas of two researchers are particularly pertinent to any discussion of geography's influence on everything from history to present-day cultural values. First, Jared Diamond,¹⁵ a professor of physiology, tells us that historically, innovations spread faster east to west than north to south. Before the advent of transoceanic shipping, ideas flowed over the Silk Road but not across the Sahara or the Isthmus of Panama. He uses this geographical approach to explain the dominance of Euro-Asian cultures, with their superior technology and more virulent germs, over African and American cultures. Indeed, Diamond's most important contribution is his material on the influence of microbiology on world history.

Second, Philip Parker,¹⁶ a marketing professor, argues for geography's deep influence on history, economics, and consumer behavior. For example, he reports strong correlations between the latitude (climate) and the per capita GDP of countries. Empirical support can be found in others' reports of climate's apparent influence on workers' wages.¹⁷ Parker, like Diamond before him, explains social phenomena using principles of physiology. The management implications of his treatise have to do with using ambient temperature as a market segmentation variable. We return to this issue in Chapter 8.

History

The impact of specific events in history can be seen reflected in technology, social institutions, cultural values, and even consumer behavior. Diamond's book is filled with examples. For instance, much of American trade policy has depended on the happenstance of tobacco (i.e., the technology of a new cash crop) being the original source of the Virginia colony's economic survival in the 1600s. In a like manner, the Declaration of Independence, and thereby Americans' values and institutions, was fundamentally influenced by the coincident 1776 publication of Adam Smith's *The Wealth of Nations*. Notice too that the military conflicts in the Middle East in 2003 bred new cola brands as alternatives to Coca-Cola—Mecca Cola, Muslim Up, Arab Cola, and ColaTurka.¹⁸

The Political Economy

For most of the 20th century, four approaches to governance competed for world dominance: colonialism, fascism, communism, and democracy/free enterprise. Fascism fell in 1945. Colonialism was also a casualty of World War II, though its death throes lasted well into the second half of the century. Communism crumbled in the 1990s.¹⁹ One pundit even declared the "end of history."²⁰ Unfortunately, we have September 11 and the conflicts in the Middle East to keep the list of bad things growing. Much more detail is included in Chapters 6 and 7 on the influences of politics and the legal environment on the culture of commerce and consumption, so we will leave this important topic until then. The main point here is for you to appreciate the influence of the political economy on social institutions and cultural values and ways of thinking.

¹⁵Jared Diamond's *Guns, Germs and Steel: The Fates of the Human Societies* (New York: Norton, 1999) is a Pulitzer Prize winner, recipient of the Phi Beta Kappa Award in Science, and a wonderful read for anyone interested in history and/or innovation. PBS also has produced a video version of *Guns, Germs and Steel*. Also see Diamond's more recent book, *Collapse* (New York: Viking, 2005).

¹⁶Philip Parker's *Physioeconomics* (Cambridge, MA: MIT Press, 2000) is a data-rich discussion of global economics well worth reading.

¹⁷Evert Van de Vliert, "Thermoclimate, Culture, and Poverty as Country-Level Roots of Workers' Wages," *Journal of International Business Studies* 34, no. 1 (2003), pp. 40–52.

¹⁸See <http://www.colaturka.com.tr>.

¹⁹Some might argue that communism has survived in North Korea, Cuba, or the Peoples' Republic of China, but at least in the last case, free enterprise is on the ascendancy. The former look more like dictatorships to most.

²⁰Francis Fukuyama, *The End of History and the Last Man* (New York: The Free Press, 1992).

Technology Sit back for a moment and consider what technological innovation has had the greatest impact on institutions and cultural values in the past 50 years in the United States. Seriously, stop reading, look out your window, and for a moment consider the question.

There are many good answers, but only one best one. Certainly jet aircraft, air conditioning, televisions,²¹ computers, mobile phones, and the Internet all make the list. But the best answer is most likely the pill.²² That is, the birth control pill, or more broadly birth control techniques, have had a huge effect on everyday life for most Americans and people around the world.²³ Mainly, it has freed women to have careers and freed men to spend more time with kids. Before the advent of the pill, men's and women's roles were proscribed by reproductive responsibilities and roles. Now half the marketing majors in the United States are women, and 10 percent of the crews on U.S. Navy ships are women. Before the pill, these numbers were unimaginable.

Obviously, not everyone is happy with these new "freedoms." For example, in 1968, the Roman Catholic Church forbade use of the birth control pill. But the technology of birth control undeniably has deeply affected social institutions and cultural values. Families are smaller, and government and schools are forced to address issues such as abstinence and condom distribution.

Finally, the reader will notice that technology does not solve all problems. For example, few would argue with the idea that the United States leads the world in healthcare technology, yet this technological leadership doesn't deliver the best healthcare system.²⁴ Other aspects of culture make a difference. Thus, citizens in many countries around the world have greater longevity (the most objective measure of the quality of healthcare delivery in a country), as mentioned earlier in this chapter. Consumer lifestyle choices and the financial structure affect the U.S. healthcare system dramatically as well. Please see Exhibit 4.5 for a quick comparison of systems across countries.

Social Institutions **Social institutions** including *family, religion, school, the media, government, and corporations* all affect the ways in which people relate to one another, organize their activities to live in harmony with one another, teach acceptable behavior to succeeding generations, and govern themselves. The positions of men and women in society, the family, social classes,²⁵ group behavior, age groups, and how societies define decency and civility are interpreted differently within every culture. In cultures in which the social organizations result in close-knit family units, for example, a promotion campaign aimed at the family unit is usually more effective than one aimed at individual family members. Travel advertising in culturally divided Canada has pictured a wife alone for the English-speaking market segment but a man and wife together for the French-speaking segments of the population, because the latter are traditionally more closely bound by family ties.

The roles and status positions found within a society are influenced by the dictates of social institutions. The caste system in India is one such institution. The election of a low-caste person—once called an "untouchable"—as president made international news because it was such a departure from traditional Indian culture. Decades ago, brushing against an untouchable or even glancing at one was considered enough to defile a Hindu of high status. Even though the caste system has been outlawed, it remains a part of the culture.

²¹Sandra K. Smith Speck and Abhijit Roy, "The Interrelationships between Television Viewing, Values, and Perceived Well-Being: A Global Perspective," *Journal of International Business Studies* 39, no. 7 (2008), pp. 1197–219.

²²Bernard Asbell, *The Pill: A Biography of the Drug that Changed the World* (New York: Random House, 1995).

²³"Go Forth and Multiply a Lot Less," *The Economist*, October 31, 2009, pp. 29–30.

²⁴T. R. Reid, "No Country for Sick Men," *Newsweek*, September 21, 2009.

²⁵Tuba Ustuner and Douglas B. Holt, "Toward a Theory of Consumption in Less Industrialized Countries," *Journal of Consumer Research* (2010), online.

Family. Family forms and functions vary substantially around the world, even around the country.²⁶ For example, whereas nepotism is seen as a problem in American organizations, it is more often seen as an organizing principle in Chinese and Mexican²⁷ firms. Or consider the Dutch executive who lives with his mother, wife, and kids in a home in Maastricht that his family has owned for the last 300 years. Then there's the common practice of the high-income folks in Cairo buying an apartment house and filling it up with the extended family—grandparents, married siblings, cousins, and kids. Or how about the Japanese mother caring for her two children pretty much by herself, often sleeping with them at night, while her husband catches up on sleep during his four hours a day commuting via train. And there's the American family in California—both parents work to support their cars, closets, and kids in college, all the while worrying about aging grandparents halfway across the country.

Even the ratio of male to female children is affected by culture (as well as latitude). In most European countries the ratio is about fifty-fifty. However, the gender percentage of boys aged one to six years is 52 in India and of those aged one to four years is 55 in China. Obviously these ratios have long-term implications for families and societies. Moreover, the favoritism for boys is deep-seated in such cultures, as demonstrated by the Chinese *Book of Songs*, circa 800 BC:

When a son is born
Let him sleep on the bed,
Clothe him with fine clothes,
And give him jade to play with. . . .
When a daughter is born,
Let her sleep on the ground,
Wrap her in common wrappings,
And give her broken tiles for playthings.

All these differences lead directly to differences in how children think and behave. For example, individualism is being taught the first night the American infant is tucked into her own separate bassinet. Values for egalitarianism are learned the first time Dad washes the dishes in front of the kids or Mom heads off to work or the toddler learns that both Grandpa and little brother are properly called “you.” And there is some good news about gender equality to share: The education gap between men and women is narrowing in many places around the world—for example, the majority of university students in the United States are now women.

Religion. In most cultures, the first social institution infants are exposed to outside the home takes the form of a church, mosque, shrine, or synagogue. The impact of religion on the value systems of a society and the effect of value systems on marketing must not be underestimated. For example, Protestants believe that one's relationship with God is a personal one, and confessions are made directly through prayer. Alternatively, Roman Catholics confess to priests, setting up a hierarchy within the Church. Thus some scholars reason that Protestantism engenders egalitarian thinking. But no matter the details, religion clearly affects people's habits, their outlook on life, the products they buy, the way they buy them, and even the newspapers they read.

The influence of religion is often quite strong, so marketers with little or no understanding of a religion may readily offend deeply. One's own religion is often not a reliable guide to another's beliefs. Most people do not understand religions other than their own, and/or what is “known” about other religions is often incorrect. The Islamic religion is

²⁶Michael Finkel's description of a hunter-gather tribe's everyday life, as observed in Tanzania, is important as a representation of family life and structure in people's primordial state. See “The Hadza,” *National Geographic*, December 2009, pp. 94–118; also see John L. Graham, “Mother and Child Reunion,” *Orange Country Register*, January 11, 2009.

²⁷Anabella Davila and Marta M. Elvira, “Culture and Human Resource Management in Latin America.” In *Managing Human Resources in Latin America*, ed. Marta M. Elvira and Anabella Davila. (London: Routledge, 2005), pp. 3–24.

a good example of the need for a basic understanding of all major religions. More than one billion people in the world embrace Islam, yet major multinational companies often offend Muslims. The French fashion house of Chanel unwittingly desecrated the Koran by embroidering verses from the sacred book of Islam on several dresses shown in its summer collections. The designer said he had taken the design, which was aesthetically pleasing to him, from a book on India's Taj Mahal and that he was unaware of its meaning. To placate a Muslim group that felt the use of the verses desecrated the Koran, Chanel had to destroy the dresses with the offending designs, along with negatives of the photos taken of the garments. Chanel certainly had no intention of offending Muslims, since some of its most important customers embrace Islam. This example shows how easy it is to offend if the marketer, in this case the designer, has not familiarized him- or herself with other religions.

School. Education, one of the most important social institutions, affects all aspects of the culture, from economic development to consumer behavior. The literacy rate of a country is a potent force in economic development. Numerous studies indicate a direct link between the literacy rate of a country and its capability for rapid economic growth. According to the World Bank, no country has been successful economically with less than 50 percent literacy, but when countries have invested in education, the economic rewards have been substantial. Literacy has a profound effect on marketing. Communicating with a literate market is much easier than communicating with one in which the marketer must depend on symbols and pictures. Increasingly, schools are seen as leading to positive cultural changes and progress across the planet.



In the United States, kids attend school 180 days per year; in China, they attend 251 days—that's six days a week. There's a great thirst for the written word in China—here children read books rented from a street vendor.

The Media. The four social institutions that most strongly influence values and culture are schools, churches, families, and, most recently, the media. In the United States during the past 30 years, women have joined the workforce in growing numbers, substantially reducing the influence of family on American culture. Media time (TV and increasingly the Internet and mobile phones) has replaced family time—much to the detriment of American culture, some argue. At this time, it is hard to gauge the long-term effects of the hours spent with Bart Simpson or an EverQuest cleric-class character. Indeed, the British Prime Minister's cameo on *The Simpsons* reflects its prominence around the world.

American kids spend only 180 days per year in school. Contrast that with 251 days in China, 240 days in Japan, and 200 days in Germany. Indeed, Chinese officials are recognizing the national disadvantages of too much school—narrow minds. Likewise, Americans more and more complain about the detrimental effects of too much media. Many decry the declining American educational system as it produces a lower percentage of college graduates than twelve other countries, including Russia, Japan, and France.²⁸

Government. Compared with the early (during childhood) and direct influences of family, religion, school, and the media, governments hold relatively little sway. Cultural values and thought patterns are pretty much set before and during adolescence. Most often governments try to influence the thinking and behaviors of adult citizens for the citizens' "own good." For example, the French government has been urging citizens to procreate since the time of Napoleon. Now the government is

²⁸Michael E. Porter, "Why America Needs an Economic Strategy," *BusinessWeek*, November 10, 2008, pp. 39–42; "The Underworked American [child]," *The Economist*, June 13, 2009, p. 40.

offering a new “birth bonus” of \$800, given to women in their seventh month of pregnancy—despite France having one of the highest fertility rates in the European Union (see Exhibit 4.1). Likewise the Japanese government is spending \$225 million to expand day-care facilities toward increasing the falling birthrate and better employing women in the workforce.²⁹ Or notice the most recent French and British government-allowed bans of *hijabs* (head scarves worn by Muslim schoolgirls) or the Dutch government initiative to ban *burkas* in that country (full-body coverings worn by Muslim women)³⁰ or the Swiss government’s ban of the construction of minarets.³¹ Also, major changes in governments, such as the dissolution of the Soviet Union, can have noticeable impacts on personal beliefs and other aspects of culture.

Of course, in some countries, the government owns the media and regularly uses propaganda to form “favorable” public opinions. Other countries prefer no separation of church and state—Iran is currently ruled by religious clerics, for example. Governments also affect ways of thinking indirectly, through their support of religious organizations and schools. For example, both the Japanese and Chinese governments are currently trying to promote more creative thinking among students through mandated changes in classroom activities and hours. Finally, governments influence thinking and behavior through the passage, promulgation, promotion, and enforcement of a variety of laws affecting consumption and marketing behaviors. The Irish government is newly concerned about its citizens’ consumption of Guinness and other alcoholic products. Their studies suggest excessive drinking costs the country 2 percent of GDP, so to discourage underage drinking, the laws are being tightened (see the end of Chapter 16 for more details).

Corporations. Of course, corporations get a grip on us early through the media. But more important, most innovations are introduced to societies by companies, many times multinational companies. Indeed, merchants and traders have throughout history been the primary conduit for the diffusion of innovations, whether it be over the Silk Road or via today’s air freight and/or the Internet. Multinational firms have access to ideas from around the world. Through the efficient distribution of new products and services based on these new ideas, cultures are changed, and new ways of thinking are stimulated. The crucial role of companies as change agents is discussed in detail in the last section of this chapter.

Elements of Culture

LO3

The elements of culture

Previously culture was defined by listing its five elements: values, rituals, symbols, beliefs, and thought processes. International marketers must design products, distribution systems, and promotional programs with due consideration of each of the five.

Cultural Values

Underlying the cultural diversity that exists among countries are fundamental differences in **cultural values**, that is, the importance of things and ideas. The most useful information on how cultural values influence various types of business and market behavior comes from seminal work by Geert Hofstede.³² Studying more than 90,000 people in 66 countries, he found that the cultures of the nations studied differed along four primary dimensions. Subsequently, he and hundreds of other researchers have determined that a wide variety of business and consumer behavior patterns are associated with three of those four dimensions.³³ The four³⁴ dimensions are as follows: the Individualism/Collective Index (IDV), which focuses on self-orientation; the Power Distance Index (PDI), which focuses

²⁹Tomoko Yamazaki and Komaki Ito, “Japan: Boosting Growth with Day Care,” *Bloomberg BusinessWeek*, January 4, 2010, pp. 96–97.

³⁰“The War of French Dressing,” *The Economist*, January 16, 2010, pp. 49–50.

³¹Deborah Ball, “Muslim Leaders Condemn Swiss Minaret Ban,” *The Wall Street Journal*, November 30, 2009.

³²Hofstede, *Culture’s Consequences*.

³³Debanjan Mitra and Peter N. Golder, “Whose Culture Matters? Near-Market Knowledge and Its Impact on Foreign Market Entry Timing,” *Journal of Marketing Research* 39, no. 3 (August 2002), pp. 350–65; Boonghee Yoo and Naveen Donthu, “Culture’s Consequences, a Book Review,” *Journal of Marketing Research* 39, no. 3 (August 2002), pp. 388–89.

³⁴In a subsequent study, a fifth dimension, Long-Term Orientation (LTO), was identified as focusing on cultures’ temporal orientations. See Geert Hofstede and Michael Harris Bond, “The Confucius Connection,” *Organizational Dynamics* 16, no. 4 (Spring 1988), pp. 4–21; Hofstede, *Culture’s Consequences*.

Exhibit 4.6**Hofstede's Indexes,
Language, and Linguistic
Distance**

Source: Geert Hofstede, *Culture's Consequences* (Thousand Oaks, CA: Sage, 2001). Used by permission of Geert Hofstede.

Country	IDV Score	PDI Score	UAI Score	Primary Language	Distance from English
Arab countries	38	80	68	Arabic	5
Australia	90	36	51	English	0
Brazil	38	69	76	Portuguese	3
Canada	80	39	48	English (French)	0, 3
Colombia	13	67	80	Spanish	3
Finland	63	33	59	Finnish	4
France	71	68	86	French	3
Germany	67	35	65	German	1
Great Britain	89	35	35	English	0
Greece	35	60	112	Greek	3
Guatemala	6	95	101	Spanish	3
India	48	77	40	Dravidian	3
Indonesia	14	78	48	Bahasa	7
Iran	41	58	59	Farsi	3
Japan	46	54	92	Japanese	4
Mexico	30	81	82	Spanish	3
Netherlands	80	38	53	Dutch	1
New Zealand	79	22	49	English	0
Pakistan	14	55	70	Urdu	3
South Korea	18	60	85	Korean	4
Taiwan	17	58	69	Taiwanese	6
Turkey	37	66	85	Turkish	4
United States	91	40	46	English	0
Uruguay	36	61	100	Spanish	3
Venezuela	12	81	76	Spanish	3

on authority orientation; the Uncertainty Avoidance Index (UAI), which focuses on risk orientation; and the Masculinity/Femininity Index (MAS), which focuses on assertiveness and achievement. The Individualism/Collectivism dimension has proven the most useful of the four dimensions, justifying entire books on the subject.³⁵ Because the MAS has proven least useful, we will not consider it further here. Please see Exhibit 4.6 for details.

During the 1990s, Robert House³⁶ and his colleagues developed a comparable set of data, more focused on values related to leadership and organizations. Their data are by themselves quite valuable, and aspects of their study nicely coincide with Hofstede's data, collected some 25 years earlier. The importance of this work has yielded important criticisms and discussion.³⁷

Individualism/Collectivism Index. The Individualism/Collective Index refers to the preference for behavior that promotes one's self-interest. Cultures that score high in IDV reflect an "I" mentality and tend to reward and accept individual initiative, whereas those low in individualism reflect a "we" mentality and generally subjugate the individual

³⁵Harry C. Triandis, *Individualism and Collectivism* (Boulder, CO: Westview Press, 1995).

³⁶Robert J. House, Paul J. Hanges, Mansour Javidan, Peter W. Dorfman, and Vipin Gupta (eds.), *Culture, Leadership, and Organizations: The Globe Study of 62 Societies* (Thousand Oaks, CA: Sage, 2004).

³⁷Bradley L. Kirkman, Kevin B. Lowe, and Cristina Gibson, "A Quarter Century of Cultures' Consequences: A Review of Empirical Research Incorporating Hofstede's Cultural Values Framework," *Journal of International Business Studies* 37 (2006), pp. 285–320; Kwok Leung, "Editor's Introduction to the Exchange between Hofstede and GLOBE," *Journal of International Business Studies* 37 (2006), p. 881; Geert Hofstede, "What Did GLOBE Really Measure? Researchers' Minds versus Respondents' Minds," *Journal of International Business Studies* 37 (2006), pp. 882–96; Mansour Javidan, Robert J. House, Peter W. Dorfman, Paul J. Hanges, and Mary Sully de Luque, "Conceptualizing and Measuring Cultures and Their Consequences: A Comparative Review of GLOBE's and Hofstede's Approaches," *Journal of International Business Studies* 37 (2006), pp. 897–914; Peter B. Smith, "When Elephants Fight, the Grass Gets Trampled: The GLOBE and Hofstede Projects," *Journal of International Business Studies* 37 (2006), pp. 915–21; P. Christopher Earley, "Leading Cultural Research in the Future: A Matter of Paradigms and Taste," *Journal of International Business Studies* 37 (2006), pp. 922–31.

to the group. This distinction does not mean that individuals fail to identify with groups when a culture scores high on IDV but rather that personal initiative and independence are accepted and endorsed. Individualism pertains to societies in which the ties between individuals are loose; everyone is expected to look after him- or herself and his or her immediate family. Collectivism, as its opposite, pertains to societies in which people from birth onward are integrated into strong, cohesive groups, which throughout people's lifetimes continue to protect them in exchange for unquestioning loyalty.

Power Distance Index. The Power Distance Index measures the tolerance of social inequality, that is, power inequality between superiors and subordinates within a social system. Cultures with high PDI scores tend to be hierarchical, with members citing social roles, manipulation, and inheritance as sources of power and social status. Those with low scores, in contrast, tend to value equality and cite knowledge and respect as sources of power. Thus, people from cultures with high PDI scores are more likely to have a general distrust of others (not those in their groups) because power is seen to rest with individuals and is coercive rather than legitimate. High PDI scores tend to indicate a perception of differences between superior and subordinate and a belief that those who hold power are entitled to privileges. A low PDI score reflects more egalitarian views.

Uncertainty Avoidance Index. The Uncertainty Avoidance Index measures the tolerance of uncertainty and ambiguity among members of a society. Cultures with high UAI scores are highly intolerant of ambiguity and as a result tend to be distrustful of new ideas or behaviors. They tend to have a high level of anxiety and stress and a concern with security and rule following. Accordingly, they dogmatically stick to historically tested patterns of behavior, which in the extreme become inviolable rules. Those with very high UAI scores thus accord a high level of authority to rules as a means of avoiding risk. Cultures scoring low in uncertainty avoidance are associated with a low level of anxiety and stress, a tolerance of deviance and dissent, and a willingness to take risks. Thus, those cultures low in UAI take a more empirical approach to understanding and knowledge, whereas those high in UAI seek absolute truth.

Cultural Values and Consumer Behavior. A variety of studies have shown cultural values can predict such consumer behaviors as word-of-mouth communications,³⁸ impulsive buying,³⁹ responses of both surprise⁴⁰ and disgust,⁴¹ the propensity to complain,⁴² responses to service failures,⁴³ and even movie preferences.⁴⁴ Going back to the e-trading example that opened this chapter, we can see how Hofstede's notions of cultural values might help us predict the speed of diffusion of such new consumer services as equity investments and electronic auctions in Japan and France. As shown in Exhibit 4.6, the United States scores the highest of all countries on individualism, at 91, with Japan at 46 and France at 71. Indeed, in America, where individualism reigns supreme, we might predict that the "virtually social" activity of sitting alone at one's computer might be most acceptable. In both Japan and France, where values favor group activities, face-to-face conversations with stockbrokers and neighbors might be preferred to impersonal electronic communications.

³⁸Desmond Lam, Alvin Lee, and Richard Mizerski, "The Effects of Cultural Values in Word-of-Mouth Communication," *Journal of International Marketing* 17, no. 3 (2009), pp. 55–70.

³⁹Yinlong Zhang, Karen Page Winterich, and Vikas Mittal, "Power-Distance Belief and Impulsive Buying," *Journal of Marketing Research* 47 (2010).

⁴⁰Ana Valenzuela, Barbar Mellers, and Judi Strebler, "Pleasurable Surprises: A Cross-Cultural Study of Consumer Responses to Unexpected Incentives," *Journal of Consumer Research* 36 (2010).

⁴¹Daisann McLane, "Tackling the Yuck Factor," *National Geographic Traveler*, January 2010, pp. 26–28.

⁴²Piotr Chelminski and Robin A. Coulter, "The Effects of Cultural Individualism and Self-Confidence on Propensity to Voice: From Theory to Measurement to Practice," *Journal of International Marketing* 15 (2007), pp. 94–118.

⁴³Haksin Chan, Lisa C. Wan, and Leo Y. M. Sin, "The Contrasting Effects of Culture on Consumer Tolerance: Interpersonal Face and Impersonal Fate," *Journal of Consumer Research* 36, no. 2 (2009), pp. 292–304; Haksin Chan and Lisa C. Wan, "Consumer Responses to Service Failures: A Resource Preference Model of Cultural Influences," *Journal of International Marketing* 16, no. 1 (2008), pp. 72–97.

⁴⁴J. Samuel Craig, William H. Greene, and Susan P. Douglas, "Culture Matters: Consumer Acceptance of U.S. Films in Foreign Markets," *Journal of International Marketing* 13 (2006), pp. 80–103.

CROSSING BORDERS 4.2

It's Not the Gift That Counts, but How You Present It

Giving a gift in another country requires careful attention if it is to be done properly. Here are a few suggestions.

JAPAN

Do not open a gift in front of a Japanese counterpart unless asked, and do not expect the Japanese to open your gift.

Avoid ribbons and bows as part of the gift wrapping. Bows as we know them are considered unattractive, and ribbon colors can have different meanings.

Always offer the gift with both hands.

EUROPE

Avoid red roses and white flowers, even numbers, and the number 13. Do not wrap flowers in paper.

Do not risk the impression of bribery by spending too much on a gift.

ARAB WORLD

Do not give a gift when you first meet someone. It may be interpreted as a bribe.

Do not let it appear that you contrived to present the gift when the recipient is alone. It looks bad unless you know the person well. Give the gift in front of others in less personal relationships.

LATIN AMERICA

Do not give a gift until after a somewhat personal relationship has developed, unless it is given to express appreciation for hospitality.

Gifts should be given during social encounters, not in the course of business.

Avoid the colors black and purple; both are associated with the Roman Catholic Lenten season.

CHINA

Never make an issue of a gift presentation—publicly or privately. But always deliver gifts with two hands.

Gifts should be presented privately, with the exception of collective ceremonial gifts at banquets or after speeches.

RUSSIA

Generally speaking, Russians take pleasure in giving and receiving gifts—so take plenty. Something for the kids is a good idea.

When invited to a Russian home, bring chocolates or wine, but not vodka.

Bringing a bouquet of flowers is a good idea, but make it an odd number. Even numbers are for funerals.

UNITED STATES

Gifts that are too ostentatious can cause big problems.

Source: James Day Hodgson, Yoshiro Sano, and John L. Graham, *Doing Business in the New Japan* (Latham, MD: Rowman and Littlefield, 2008); www.executiveplanet.com, 2010.

Similarly, both Japan (92) and France (86) score quite high on Hofstede's Uncertainty Avoidance Index, and America scores low (46). Based on these scores, both Japanese and French investors might be expected to be less willing to take the risks of stock market investments—and indeed, the security of post office deposits or bank savings accounts is preferred. So in both instances, Hofstede's data on cultural values suggest that the diffusion of these innovations will be slower in Japan and France than in the United States. Such predictions are consistent with research findings that cultures scoring higher on individualism and lower on uncertainty avoidance tend to be more innovative.⁴⁵

Perhaps the most interesting application of cultural values and consumer behavior regards a pair of experiments done with American and Chinese students.⁴⁶ Both groups were shown print ads using other-focused emotional appeals (that is, a couple pictured having fun on the beach) versus self-focused emotional appeals (an individual having fun on the beach). The researchers predicted that the individualistic Americans would respond more favorably

⁴⁵Jan-Benedict E. M. Steenkamp, Frenkel ter Hofstede, and Michel Wedel, "A Cross-National Investigation into the Individual and National Cultural Antecedents of Consumer Innovativeness," *Journal of Marketing* 63 (April 1999), pp. 55–69.

⁴⁶Jennifer L. Aaker and Patti Williams, "Empathy vs. Pride: The Influence of Emotional Appeals across Cultures," *Journal of Consumer Research* 25 (December 1998), pp. 241–61.

Every Muslim is enjoined to make the hajj, or pilgrimage to Mecca, once in his or her lifetime if physically able. Here, some 2 million faithful come from all over the world annually to participate in what is one of the largest ritual meetings on Earth.⁴⁷



to the self-focused appeals and the collectivistic Chinese to the other-focused appeals. They found the opposite. Their second experiment helped explain these unexpected results. That is, in both cases, what the participants liked about the ads was their *novelty* vis-à-vis their own cultures. So, even in this circumstance, cultural values provide useful information for marketers. However, the complexity of human behavior, values, and culture is manifest.

Rituals

Dressed in the ritual color of saffron (orange), thousands of pilgrims of the Lord Shiva descend one of the over 100 Ghats in Varanasi, India, to perform puja (ritual cleansing of the soul). Varanasi (also known as Benares or Banaris) is one of the oldest and holiest cities in India. It is believed to be the home of Lord Shiva (Hindu god) and the location of the first sermon by Buddha, so followers of numerous religions flock to Varanasi on a daily basis. Each day at sunrise and sunset, pilgrims crowd the Ghats (steps to the holy river/Mother Ganga/ the River Ganges) to immerse themselves in the water and perform puja. On the busiest day of the ritual, some 5–10 million participate (according to Professor Rika Houston). Meanwhile, televised rituals such as the Academy Awards and World Cup soccer draw billions in the form of virtual crowds.

Life is filled with **rituals**, that is, patterns of behavior and interaction that are learned and repeated. The most obvious ones are associated with major events in life. Marriage ceremonies and funerals are good examples. Perhaps the one most important to most readers

⁴⁷Hassan M. Fattar, "The Price of Progress: Transforming Islam's Holiest Sight," *The New York Times International*, March 8, 2007, p. A4.



of this book is the hopefully proximate graduation ritual—*Pomp and Circumstance*, funny hats, long speeches, and all. Very often these rituals differ across cultures. Indeed, there is an entire *genre* of foreign films about weddings.⁴⁸ Perhaps the best is *Monsoon Wedding*. Grooms on white horses and edible flowers are apparently part of the ceremony for high-income folks in New Delhi.

Life is also filled with little rituals, such as dinner at a restaurant or a visit to a department store or even grooming before heading off to work or class in the morning. In a nice restaurant in Madrid, dessert may precede the entrée, but dinner often starts at about midnight, and the entire process can be a three-hour affair. Walking into a department store in the United States often yields a search for an employee to answer questions. Not so in Japan, where the help bows at the door as you walk in. Visit a doctor in the States and a 15-minute wait in a cold exam room with nothing on but a paper gown is typical. In Spain the exams are often done in the doctor's office. There's no waiting, because you find the doctor sitting at her desk.

Rituals are important. They coordinate everyday interactions and special occasions. They let people know what to expect. In the final chapter of the text, we discuss the ritual of business negotiations, and that ritual varies across cultures as well.

Symbols Anthropologist Edward T. Hall tells us that culture is communication. In his seminal article about cultural differences in business settings, he talks about the “languages” of time, space, things, friendships, and agreements.⁴⁹ Indeed, learning to interpret correctly the symbols that surround us is a key part of socialization. And this learning begins immediately after birth, as we begin to hear the language spoken and see the facial expressions and feel the touch and taste the milk of our mothers.⁵⁰ We begin our discussion of symbolic systems with language, the most obvious part and the part that most often involves conscious communication.

Language. We should mention that for some around the world, language is itself thought of as a social institution, often with political importance. Certainly the French go to extreme lengths and expense to preserve the purity of their *français*. In Canada, language has been the focus of political disputes including secession, though things seem to have calmed down there most recently. Unfortunately, as the number of spoken languages continues to decline worldwide, so does the interesting cultural diversity of the planet.

The importance of understanding the language of a country cannot be overestimated, particularly if you're selling your products in France! The successful international marketer must achieve expert communication, which requires a thorough understanding of the language as well as the ability to speak it. Advertising copywriters should be concerned less with obvious differences between languages and more with the idiomatic and symbolic⁵¹ meanings expressed. It is not sufficient to say you want to translate into Spanish, for instance, because across Spanish-speaking Latin America, the language vocabulary varies widely. *Tambo*, for example, means a roadside inn in Bolivia, Colombia, Ecuador, and Peru; a dairy farm in Argentina and Uruguay; and a brothel in Chile. If that gives you a problem, consider communicating with the people of Papua New Guinea. Some 750 languages, each distinct and mutually unintelligible, are spoken there. This crucial issue of accurate translations in marketing communications is discussed further in Chapters 8 and 16.

The relationship between language and international marketing is important in another way. Recent studies indicate that a new concept, **linguistic distance**, is proving useful to

⁴⁸Other excellent films in this genre include *Cousin, Cousine* (French), *Four Weddings and a Funeral* (U.K.), *Bend It Like Beckham* (U.K., Asian immigrants), *Wedding in Galilee* (Palestine/Israel), and *The Wedding Banquet* (Taiwan). Also see Cam Simpson, “For Jordanians, Shotgun Weddings Can Be a Problem,” *The Wall Street Journal*, June 5, 2007, pp. A1, A11.

⁴⁹Edward T. Hall, “The Silent Language in Overseas Business,” *Harvard Business Review*, May–June 1960, pp. 87–96. A discussion of the salience of Hall's work appears in John L. Graham, “Culture and Human Resources Management.” In *The Oxford Handbook of International Business*, ed. Alan M. Rugman and Thomas L. Brewer (Oxford: Oxford University Press, 2008), pp. 503–36.

⁵⁰The spices a nursing mother consumes actually affect the flavor of the milk she produces.

⁵¹Eric Yorkston and Gustavo E. De Mello, “Linguistic Gender Marking and Categorization,” *Journal of Consumer Research* 32 (2005), pp. 224–34.

marketing researchers in market segmentation and strategic entry decisions. Linguistic distance has been shown to be an important factor in determining differences in values across countries and the amount of trade between countries.⁵² The idea is that crossing “wider” language differences increases transaction costs.

Over the years, linguistics researchers have determined that languages around the world conform to family trees⁵³ based on the similarity of their forms and development. For example, Spanish, Italian, French, and Portuguese are all classified as Romance languages because of their common roots in Latin. Distances can be measured on these linguistic trees. If we assume English⁵⁴ to be the starting point, German is one branch away, Danish two, Spanish three, Japanese four, Hebrew five, Chinese six, and Thai seven. These “distance from English” scores are listed for a sampling of cultures in Exhibit 4.6.

Other work in the area is demonstrating a direct influence of language on cultural values, expectations, and even conceptions of time. For example, as linguistic distance from English increases, individualism decreases.⁵⁵ These studies are among the first in this genre, and much more work needs to be done. However, the notion of linguistic distance appears to hold promise for better understanding and predicting cultural differences in both consumer and management values, expectations, and behaviors. Another area of new research interest is the relationship between bilingualism/biculturalism and consumer behaviors and values. For example, bilingual consumers process advertisements differently if heard in their native versus second language,⁵⁶ and bicultural consumers, different from bilingual only consumers, can switch identities and perception frames.⁵⁷

Moreover, the relationship between language spoken and cultural values holds deeper implications. That is, as English spreads around the world via school systems and the Internet, cultural values of individualism and egalitarianism will spread with it. For example, both Chinese Mandarin speakers and Spanish speakers must learn two words for “you” (*ni* and *nin* and *tu* and *usted*, respectively). The proper use of the two depends completely on knowledge of the social context of the conversation. Respect for status is communicated by the use of *nin* and *usted*. In English there is only one form for “you.”⁵⁸ Speakers can ignore social context and status and still speak correctly. It’s easier, and social status becomes less important. *Français* beware!

Aesthetics as Symbols. Art communicates. Indeed, Confucius is reputed to have opined, “A picture is worth a thousand words.” But, of course, so can a dance or a song. As we acquire our culture, we learn the meaning of this wonderful symbolic system represented in its **aesthetics**, that is, its arts, folklore, music, drama, dance, dress, and cosmetics. Customers everywhere respond to images, myths, and metaphors that help them define their personal and national identities and relationships within a context of culture and product benefits. The uniqueness of a culture can be spotted quickly in symbols having distinct meanings. Think about the subtle earth tones of the typical Japanese restaurant compared with the bright reds and yellows in the decor of ethnic Chinese restaurants.

⁵²Jennifer D. Chandler and John L. Graham, “Relationship-Oriented Cultures, Corruption, and International Marketing Success,” *Journal of Business Ethics* 92(2) (2010), pp. 251–67.

⁵³For the most comprehensive representation of global linguistic trees, see Jiangtian Chen, Robert R. Sokal, and Merrit Ruhlen, “Worldwide Analysis of Genetic and Linguistic Relationships of Human Populations,” *Human Biology* 67, no. 4 (August 1995), pp. 595–612.

⁵⁴We appreciate the ethnocentricity in using English as the starting point. However, linguistic trees can be used to measure distance from any language. For example, analyses using French or Japanese as the starting point have proven useful as well.

⁵⁵Joel West and John L. Graham, “A Linguistics-Based Measure of Cultural Distance and Its Relationship to Managerial Values,” *Management International Review* 44, no. 3 (2004), pp. 239–60.

⁵⁶Stefano Puntoni, Bart de Langhe, and Stijn M.J. van Osselaer, “Bilingualism and the Emotional Intensity of Advertising Language,” *Journal of Consumer Research* 35 (2009), pp. 1012–25.

⁵⁷David Luna, Torsten Ringberg, and Laura A. Peracchio, “One Individual, Two Identities: Frame Switching Biculturals,” *Journal of Consumer Research* 35, no. 2 (2008), pp. 279–93.

⁵⁸In English, there was historically a second second-person form. That is, “thee” was the informal form up until the last century. Even in some Spanish-speaking countries, such as Costa Rica, the “tu” is being dropped in a similar manner.

Exhibit 4.7

Metaphorical Journeys through 23 Nations

Source: From Martin J. Gannon, *Understanding Global Cultures, Metaphorical Journeys through 23 Nations*, 2nd ed. Copyright © 2001. Reprinted by permission of Sage Publications.

The Thai Kingdom	The Traditional British House
The Japanese Garden	The Malaysian Balik Kampung
India: The Dance of Shiva	The Nigerian Marketplace
Bedouin Jewelry and Saudi Arabia	The Israeli Kibbutzim and Moshavim
The Turkish Coffeehouse	The Italian Opera
The Brazilian Samba	Belgian Lace
The Polish Village Church	The Mexican Fiesta
Kimchi and Korea	The Russian Ballet
The German Symphony	The Spanish Bullfight
The Swedish Stuga	The Portuguese Bullfight
Irish Conversations	The Chinese Family Altar
American Football	

Similarly, a long-standing rivalry between the Scottish Clan Lindsay and Clan Donald caused McDonald's Corporation some consternation when it chose the Lindsay tartan design for new uniforms for its workers. Godfrey Lord Macdonald, Chief of Clan Donald, was outraged and complained that McDonald's had a "complete lack of understanding of the name." Of course, the plaid in the uniforms is now the least of the firm's worries as British consumers are becoming more concerned about health-related matters.

Without culturally consistent interpretations and presentations⁵⁹ of countries' aesthetic values, a host of marketing problems can arise. Product styling must be aesthetically pleasing to be successful, as must advertisements and package designs. Insensitivity to aesthetic values can offend, create a negative impression, and, in general, render marketing efforts ineffective or even damaging. Strong symbolic meanings may be overlooked if one is not familiar with a culture's aesthetic values. The Japanese, for example, revere the crane as being very lucky because it is said to live a thousand years. However, the use of the number four should be avoided completely because the word for four, *shi*, is also the Japanese word for death. Thus teacups are sold in sets of five, not four, in Japan.

Finally, one author has suggested that understanding different cultures' metaphors is a key doorway to success. In Exhibit 4.7, we list the metaphors Martin Gannon⁶⁰ identified to represent cultures around the world. In the fascinating text, he compares "American Football" (with its individualism, competitive specialization, huddling, and ceremonial celebration of perfection) to the "Spanish Bullfight" (with its pompous entrance parade, audience participation, and the ritual of the fight) to the "Indian Dance of the Shiva" (with its cycles of life, family, and social interaction). Empirical evidence is beginning to accumulate supporting the notion that metaphors matter.⁶¹ Any good international marketer would see fine fodder for advertising campaigns in the insightful descriptions depicted.

Beliefs Of course, much of what we learn to believe comes from religious training. But to consider matters of true faith and spirituality adequately here is certainly impossible. Moreover, the relationship between superstition and religion is not at all clear. For example, one explanation of the origin about the Western aversion to the number 13 has to do with Jesus sitting with his 12 disciples at the Last Supper.

However, many of our beliefs are secular in nature. What Westerners often call superstition may play quite a large role in a society's belief system in another part of the world. For example, in parts of Asia, ghosts, fortune telling, palmistry, blood types, head-bump reading, phases of the moon, faith healers, demons, and soothsayers can all be integral elements of society. Surveys of advertisements in Greater China show a preference for an "8" as the last digit in prices listed—the number connotes "prosperity" in Chinese culture. The

⁵⁹Michael W. Allen, Richa Gupta, and Arnaud Monnier, "The Interactive Effect of Cultural Symbols and Cultural Values on Taste Evaluations," *Journal of Consumer Research* 35, no. 2 (2008), pp. 294–308.

⁶⁰Martin J. Gannon, *Understanding Global Cultures, Metaphorical Journeys through 23 Nations*, 2nd ed. (Thousand Oaks, CA: Sage, 2001).

⁶¹Cristina B. Gibson and Mary E. Zeller-Bruhn, "Metaphors and Meaning: An Intercultural Analysis of the Concept of Work," *Administrative Science Quarterly* 46, no. 2 (2001), pp. 274–303.

Russian Orthodox priests prepare to bless an assembly line at a Niva sport-utility plant near Moscow, part of a joint venture between General Motors and AvtoVaz. The Niva is the best-selling SUV in Russia, making a profit for GM. Comrade Lenin would have had a tough time with this one!



Beijing Olympics started on 8-8-08 for a reason! And recall the Japanese concern about Year of the Fire Horse discussed earlier.

Called art, science, philosophy, or superstition—depending on who is talking—the Chinese practice of *feng shui* is an important ancient belief held by Chinese, among others. Feng shui is the process that links humans and the universe to *ch'i*, the energy that sustains life and flows through our bodies and surroundings, in and around our homes and workplaces. The idea is to harness this *ch'i* to enhance good luck, prosperity, good health, and honor for the owner of a premise and to minimize the negative force, *sha ch'i*, and its effect. Feng shui requires engaging the services of a feng shui master to determine the positive orientation of a building in relation to the owner's horoscope, the date of establishment of the business, or the shape of the land and building. It is not a look or a style, and it is more than aesthetics; Feng shui is a strong belief in establishing a harmonious environment through the design and placement of furnishings and the avoidance of buildings facing northwest, the "devil's entrance," and southwest, the "devil's backdoor." Indeed, Disney has even "feng-shuied" all its new rides in Hong Kong Disneyland.

Too often, one person's beliefs are another person's funny story. To discount the importance of myths, beliefs, superstitions, or other cultural beliefs, however strange they may appear, is a mistake because they are an important part of the cultural fabric of a society and influence all manner of behavior. For the marketer to make light of superstitions in other cultures when doing business there can be an expensive mistake. Making a fuss about being born in the right year under the right phase of the moon or relying heavily on handwriting and palm-reading experts, as in Japan, can be difficult to comprehend for a Westerner who refuses to walk under a ladder, worries about the next seven years after breaking a mirror, buys a one-dollar lottery ticket, and seldom sees a 13th floor in a building.

Thought Processes

We are now learning in much more detail the degree to which ways of thinking vary across cultures. For example, new studies are demonstrating cultural differences in consumer impatience⁶² and in how consumers make decisions about products—culture seems to matter more in snap judgments than in longer deliberations.⁶³ Richard Nisbett,

⁶²Haipen (Allan) Chen, Sharon Ng, and Akshay R. Rao, "Cultural Differences in Consumer Impatience," *Journal of Marketing Research* 42 (2007), pp. 291–301.

⁶³Donnel A. Briley and Jennifer L. Aaker, "When Does Culture Matter? Effects of Personal Knowledge on the Correction of Culture-Based Judgments," *Journal of Marketing Research* 43 (2008), pp. 395–408.

in his wonderful book *The Geography of Thought*,⁶⁴ broadly discusses differences in “Asian and Western” thinking. He starts with Confucius and Aristotle and develops his arguments through consideration of historical and philosophical writings and findings from more recent behavioral science research, including his own social-psychological experiments. Although he acknowledges the dangers surrounding generalizations about Japanese, Chinese, and Korean cultures, on the one hand, and European and American cultures, on the other, many of his conclusions are consistent with our own work related to international negotiations, cultural values, and linguistic distance.

A good metaphor for his views involves going back to Confucius’s worthy picture. Asians tend to see the whole picture and can report details about the background and foreground. Westerners alternatively focus on the foreground and can provide great detail about central figures but see relatively little in the background. This difference in perception—focus versus big picture—is associated with a wide variety of differences in values, preferences, and expectations about future events. Nisbett’s book is essential reading for anyone marketing products and services internationally. His insights are pertinent to Japanese selling in Jacksonville or Belgians selling in Beijing.

Each of the five cultural elements must be evaluated in light of how they might affect a proposed marketing program. Newer products and services and more extensive programs involving the entire cycle, from product development through promotion to final selling, require greater consideration of cultural factors. Moreover, the separate origins and elements of culture we have presented interact, often in synergistic ways. Therefore, the marketer must also take a step back and consider larger cultural consequences of marketing actions.

Cultural Sensitivity and Tolerance

Successful foreign marketing begins with **cultural sensitivity**—being attuned to the nuances of culture so that a new culture can be viewed objectively, evaluated, and appreciated. Cultural sensitivity, or cultural empathy, must be carefully cultivated. That is, for every amusing, annoying, peculiar, or repulsive cultural trait we find in a country, others see a similarly amusing, annoying, or repulsive trait in our culture. For example, we bathe, perfume, and deodorize our bodies in a daily ritual that is seen in many cultures as compulsive, while we often become annoyed with those cultures less concerned with natural body odor. Just because a culture is different does not make it wrong. Marketers must understand how their own cultures influence their assumptions about another culture. The more exotic the situation, the more sensitive, tolerant, and flexible one needs to be.⁶⁵ Being culturally sensitive will reduce conflict and improve communications and thereby increase success in collaborative relationships.

Besides knowledge of the origins and elements of cultures, the international marketer also should have an appreciation of how cultures change and accept or reject new ideas. Because the marketer usually is trying to introduce something completely new (such as e-trading) or to improve what is already in use, how cultures change and the manner in which resistance to change occurs should be thoroughly understood.

Cultural Change

Culture is dynamic in nature; it is a living process.⁶⁶ But the fact that cultural change is constant seems paradoxical, because another important attribute of culture is that it is conservative and resists change. The dynamic character of culture is significant in assessing new markets even though changes face resistance. Societies change in a variety of ways. Some have change thrust upon them by war (for example, the changes in Japan after World War II) or by natural disaster. More frequently, change is a result of a society seeking ways to solve the problems created by changes in its environment. One view is that culture is the accumulation of a series of the best solutions to problems faced in common by members of

⁶⁴Nisbett, *The Geography of Thought*.

⁶⁵Paul Vitello, “When a Kiss Is More Than a Kiss,” *The New York Times*, May 6, 2007, Section 4, p. 1.

⁶⁶Indeed, aspects of Hofstede’s values scores have been shown to vary over time. See Steve Jenner, Bren MacNab, Donnel Briley, Richard Brislin, and Reg Worthley, “Culture Change and Marketing,” *Journal of International Marketing* 21, no. 2 (2008), pp. 161–72.

CROSSING BORDERS 4.3

Thumbs that Rule

Ha Mok-min is feeling like a gunslinger these days. At the English-language cram school she attends during winter break, students jealous of her international bragging rights line up to duel with her. “They come with their cell phones boasting they can beat me,” the 16-year-old sighs, her deadpan manner lending her the air of a champion accustomed to—even weary of—fame. “I let them try.” With another young South Korean, Bae Yeong-ho, her Team Korea won an international competition held in New York to determine who could send text messages the fastest and most accurately. “When others watch me texting, they think I’m not that fast and they can do better,” said Bae, a 17-year-old high school dropout who dyes his hair a light chestnut color and is studying to be an opera singer. “So far, I’ve never lost a match.” In the New York competition, he typed six characters a second. “If I can think faster I can type faster,” he said.

The inaugural Mobile World Cup, hosted by the South Korean cell phone maker LG Electronics, brought together two-person teams from 13 countries who had clinched their national titles by beating a total of six million contestants. Marching behind their national flags, they gathered for an international clash of dexterous

digits. Behind Ha and Bae were an American team, followed by the Argentine team.

Since their return home, with \$50,000 prizes, Ha and Bae have become something like heroes to the “thumb tribe”—those youngsters who feel more comfortable texting than talking. Ha averages 150 to 200 messages a day—“average among my friends,” she said defensively. “Some send as many as 500 a day.” In 2009, Ha also won the South Korean national title, over 2.8 million competitors, by thumbing 7.25 characters a second. (The best score among participants in their 40s was 2.2 characters a second.) Bae, the previous national champion, has typed as many as 8 characters a second, but he did not compete last year.

It remains tough for even the most technologically savvy older person to keep up with this thumb tribe. On *The Daily Show* in January 2010, Bill Gates even admitted to host Jon Stewart that he had begun tweeting—for the first time just that month! Human communication systems are changing at the speed of “Mok-min.”

Sources: Choe Sang-Hun, “Rule of Thumbs: Koreans Reign in Texting World,” *The New York Times*, January 28, 2010, p. A12; “Le Snooze? We Lose,” *Los Angeles Times*, May 8, 2009, p. A38.

a given society. In other words, culture is the means used in adjusting to the environmental and historical components of human existence.

Accidents have provided solutions to some problems; invention has solved many others. Usually, however, societies have found answers by looking to other cultures from which they can borrow ideas. Cultural borrowing is common to all cultures. Although each society has a few unique situations facing it (such as stomach cancer in Japan), most problems confronting societies are similar in nature.

Cultural Borrowing

LO4

The impact of cultural borrowing

Cultural borrowing is a responsible effort to learn from others’ cultural ways in the quest for better solutions to a society’s particular problems.⁶⁷ Thus cultures unique in their own right are the result, in part, of imitating a diversity of others. Some cultures grow closer together and some further apart with contact.⁶⁸ Consider, for example, American (U.S.) culture and a typical U.S. citizen, who begins breakfast with an orange from the eastern Mediterranean, a cantaloupe from Persia, or perhaps a piece of African watermelon. After her fruit and first coffee, she goes on to waffles, cakes made by a Scandinavian technique from wheat domesticated in Asia Minor. Over these she pours maple syrup, invented by the Native Americans of the eastern U.S. woodlands. As a side dish, she may have the eggs of a species of bird domesticated in Indochina or thin strips of the flesh of an animal domesticated in eastern

⁶⁷Consider a discussion about Japanese teenagers as the leaders of cultural change on the planet: Amy Choziak, “Land of the Rising Karaoke Hot Tub,” *The Wall Street Journal*, March 9, 2007, p. W1.

⁶⁸Kwok Leung, Rabi S. Bhagat, Nancy B. Buchan, Miriam Erez, and Cristina Gibson, “Culture and International Business: Recent Advances and Their Implications for Future Research,” *Journal of International Business Studies* 36 (2006), pp. 357–78.

Asia that have been salted and smoked by a process developed in northern Europe. While eating, she reads the news of the day, imprinted in characters invented by the ancient Semites upon a material invented in China by a process also invented in China. As she absorbs the accounts of foreign troubles, she will, if she is a good conservative citizen, thank a Hebrew deity in an Indo-European language that she is 100 percent American.⁶⁹

Actually, this citizen is correct to assume that she is 100 percent American, because each of the borrowed cultural facets has been adapted to fit her needs, molded into uniquely American habits, foods, and customs. Americans behave as they do because of the dictates of their culture. Regardless of how or where solutions are found, once a particular pattern of action is judged acceptable by society, it becomes the approved way and is passed on and taught as part of the group's cultural heritage. Cultural heritage is one of the fundamental differences between humans and other animals. Culture is learned; societies pass on to succeeding generations solutions to problems, constantly building on and expanding the culture so that a wide range of behavior is possible. The point is, of course, that though many behaviors are borrowed from other cultures, they are combined in a unique manner that becomes typical for a particular society. To the foreign marketer, this similar-but-different feature of cultures has important meaning in gaining cultural empathy.

Similarities: An Illusion

For the inexperienced marketer, the similar-but-different aspect of culture creates illusions of similarity that usually do not exist. Several nationalities can speak the same language or have similar race and heritage, but it does not follow that similarities exist in other respects—that a product acceptable to one culture will be readily acceptable to the other, or that a promotional message that succeeds in one country will succeed in the other. Even though people start with a common idea or approach, as is the case among English-speaking Americans and the British, cultural borrowing and assimilation to meet individual needs translate over time into quite distinct cultures. A common language does not guarantee a similar interpretation of words or phrases. Both British and Americans speak English, but their cultures are sufficiently different that a single phrase has different meanings to each and can even be completely misunderstood. In England, one asks for a lift instead of an elevator, and an American, when speaking of a bathroom, generally refers to a toilet, whereas in England a bathroom is a place to take a tub bath. Also, the English “hoover” a carpet, whereas Americans vacuum. The movie title *The Spy Who Shagged Me* means nothing to most Americans but much to British consumers. Indeed, anthropologist Edward Hall warns that Americans and British have a harder time understanding each other because of their *apparent* and *assumed* cultural similarities.

The growing economic unification of Europe has fostered a tendency to speak of the “European consumer.” Many of the obstacles to doing business in Europe have been or will be eliminated as the European Union takes shape, but marketers, eager to enter the market, must not jump to the conclusion that an economically unified Europe means a common set of consumer wants and needs. Cultural differences among the members of the European Union are the product of centuries of history that will take centuries to ameliorate.⁷⁰ The United States itself has many subcultures that even today, with mass communications and rapid travel, defy complete homogenization. To suggest that the South is in all respects culturally the same as the northeastern or midwestern parts of the United States would be folly, just as it would be folly to assume that the unification of Germany has erased cultural differences that arose from over 40 years of political and social separation.

Marketers must assess each country thoroughly in terms of the proposed products or services and never rely on an often-used axiom that if it sells in one country, it will surely sell in another. As worldwide mass communications and increased economic and social interdependence of countries grow, similarities among countries will increase, and common

⁶⁹Ralph Linton, *The Study of Man* (New York: Appleton-Century-Crofts, 1936), p. 327.

⁷⁰Tuba Ustuner and Douglas B. Holt, “Dominated Consumer Acculturation: The Social Construction of Poor Migrant Women’s Consumer Identity Projects in a Turkish Squatter,” *Journal of Consumer Research* 34 (2007), pp. 41–56.

market behaviors, wants, and needs will continue to develop. As this process occurs, the tendency will be to rely more on apparent similarities when they may not exist. A marketer is wise to remember that a culture borrows and then adapts and customizes to its own needs and idiosyncrasies; thus, what may appear to be the same on the surface may be different in its cultural meaning.

Resistance to Change

A characteristic of human culture is that change occurs. That people's habits, tastes, styles, behavior, and values are not constant but are continually changing can be verified by reading 20-year-old magazines. However, this gradual cultural growth does not occur without some resistance; new methods, ideas, and products are held to be suspect before they are accepted, if ever. Moreover, research shows that consumers in different cultures display differing resistance.⁷¹

The degree of resistance to new patterns varies. In some situations, new elements are accepted completely and rapidly; in others, resistance is so strong that acceptance is never forthcoming. Studies show that the most important factors in determining what kind and how much of an innovation will be accepted is the degree of interest in the particular subject, as well as how drastically the new will change the old—that is, how disruptive the innovation will be to presently acceptable values and behavior patterns. Observations indicate that those innovations most readily accepted are those holding the greatest interest within the society and those least disruptive. For example, rapid industrialization in parts of Europe has changed many long-honored attitudes involving time and working women. Today, there is an interest in ways to save time and make life more productive; the leisurely continental life is rapidly disappearing. With this time consciousness has come the very rapid acceptance of many innovations that might have been resisted by most just a few years ago. Instant foods, labor-saving devices, and fast-food establishments, all supportive of a changing attitude toward work and time, are rapidly gaining acceptance.

An understanding of the process of acceptance of innovations is of crucial importance to the marketer. The marketer cannot wait centuries or even decades for acceptance but must gain acceptance within the limits of financial resources and projected profitability periods. Possible methods and insights are offered by social scientists who are concerned with the concepts of planned social change. Historically, most cultural borrowing and the resulting

⁷¹Mark Cleveland, Michel Laroche, and Nicolas Papadopoulos, "Cosmopolitanism, Consumer Ethnocentrism, and Materialism: An Eight-Country Study of Antecedents and Outcomes," *Journal of International Marketing* 17, no. 1 (2009), pp. 116–46; Gerald J. Tellis, Eden Yen, and Simon Bell, "Global Consumer Innovativeness: Cross-Country Differences and Commonalities," *Journal of International Marketing* 17, no. 2 (2009), pp. 1–22.

MTV meets Mom in Mumbai (formerly Bombay), India. Culture does change—dress and even names of major cities! Even so, a local resident tells us everyone still calls it Bombay despite the official alteration.



Planned and Unplanned Cultural Change

LOS

The strategy of planned change and its consequences

change has occurred without a deliberate plan, but increasingly, changes are occurring in societies as a result of purposeful attempts by some acceptable institution to bring about change, that is, planned change.

The first step in bringing about planned change in a society is to determine which cultural factors conflict with an innovation, thus creating resistance to its acceptance. The next step is an effort to change those factors from obstacles to acceptance into stimulants for change. The same deliberate approaches used by the social planner to gain acceptance for hybrid grains, better sanitation methods, improved farming techniques, or protein-rich diets among the peoples of underdeveloped societies can be adopted by marketers to achieve marketing goals.⁷²

Marketers have two options when introducing an innovation to a culture: They can wait for changes to occur, or they can spur change. The former requires hopeful waiting for eventual cultural changes that prove their innovations of value to the culture; the latter involves introducing an idea or product and deliberately setting about to overcome resistance and to cause change that accelerates the rate of acceptance. The folks at Fidelity Investments in Japan, for example, pitched a tent in front of Tokyo's Shinjuku train station and showered commuters investment brochures and demonstrations of Japanese-language WebXpress online stock trading services to encourage faster changes in Japanese investor behavior. However, as mentioned previously, the changes have not happened fast enough for most foreign firms targeting this business and similar financial services.

Obviously not all marketing efforts require change to be accepted. In fact, much successful and highly competitive marketing is accomplished by a strategy of **cultural congruence**. Essentially this strategy involves marketing products similar to ones already on the market in a manner as congruent as possible with existing cultural norms, thereby minimizing resistance. However, when marketing programs depend on cultural change to be successful, a company may decide to leave acceptance to a strategy of unplanned change—that is, introduce a product and hope for the best. Or a company may employ a strategy of **planned change**—that is, deliberately set out to change those aspects of the culture offering resistance to predetermined marketing goals.

As an example of unplanned cultural change, consider how the Japanese diet has changed since the introduction of milk and bread soon after World War II. Most Japanese, who were predominantly fish eaters, have increased their intake of animal fat and protein to the point that fat and protein now exceed vegetable intake. As many McDonald's hamburgers are likely to be eaten in Japan as the traditional rice ball wrapped in edible seaweed, and American hamburgers are replacing many traditional Japanese foods. Burger King purchased Japan's homegrown Morinaga Love restaurant chain, home of the salmon burger—a patty of salmon meat, a slice of cheese, and a layer of dried seaweed, spread with mayonnaise and stuck between two cakes of sticky Japanese rice pressed into the shape of a bun—an eggplant burger, and other treats. The chain was converted and now sells Whoppers instead of the salmon-rice burger.

The Westernized diet has caused many Japanese to become overweight. To counter this trend, the Japanese are buying low-calorie, low-fat foods to help shed excess weight and are flocking to health clubs. All this began when U.S. occupation forces introduced bread, milk, and steak to Japanese culture. The effect on the Japanese was unintentional, but nevertheless, change occurred. Had the intent been to introduce a new diet—that is, a strategy of planned change—specific steps could have been taken to identify resistance to dietary change and then to overcome these resistances, thus accelerating the process of change.

Marketing strategy is judged culturally in terms of acceptance, resistance, or rejection. How marketing efforts interact with a culture determines the degree of success or failure. All too often marketers are not aware of the scope of their impact on a host culture. If a strategy of planned change is implemented, the marketer has some responsibility to determine the consequences of such action.

⁷²Two very important books on this topic are Everett M. Rogers, *Diffusion of Innovations*, 4th ed. (New York: The Free Press, 1995), and Gerald Zaltman and Robert Duncan, *Strategies for Planned Change* (New York: John Wiley & Sons, 1979).

Summary

A complete and thorough appreciation of the origins (geography, history, political economy, technology, and social institutions) and elements (cultural values, rituals, symbols, beliefs, and ways of thinking) of culture may well be the single most important gain for a foreign marketer in the preparation of marketing plans and strategies. Marketers can control the product offered to a market—its promotion, price, and eventual distribution methods—but they have only limited control over the cultural environment within which these plans must be implemented. Because they cannot control all the influences on their marketing plans, they must attempt to anticipate the eventual effect of the uncontrollable elements and plan in such a way that these elements do not preclude the achievement of marketing objectives. They can also set about to effect changes that lead to quicker acceptance of their products or marketing programs.

Planning marketing strategy in terms of the uncontrollable elements of a market is necessary in a domestic market as well, but when a company is operating internationally, each new environment that is influenced by elements unfamiliar and sometimes unrecognizable to the marketer complicates the task. For these reasons, special effort and study are needed to absorb enough understanding of the foreign culture to cope with the uncontrollable features. Perhaps it is safe to generalize that of all the tools the foreign marketer must have, those that help generate empathy for another culture are the most valuable. Each of the cultural elements is explored in depth in subsequent chapters. Specific attention is given to business customs, political culture, and legal culture in the following chapters.

Key Terms

Culture
Social institutions
Cultural values

Rituals
Linguistic distance
Aesthetics

Cultural sensitivity
Cultural borrowing

Cultural congruence
Planned change

Questions

1. Define the key terms listed above.
2. What role does the marketer play as a change agent?
3. Discuss the three cultural change strategies a foreign marketer can pursue.
4. "Culture is pervasive in all marketing activities." Discuss.
5. What is the importance of cultural empathy to foreign marketers? How do they acquire cultural empathy?
6. Why should a foreign marketer be concerned with the study of culture?
7. What is the popular definition of culture? Where does culture come from?
8. "Members of a society borrow from other cultures to solve problems that they face in common." What does this mean? What is the significance to marketing?
9. "For the inexperienced marketer, the 'similar-but-different' aspect of culture creates an illusion of similarity that usually does not exist." Discuss and give examples.
10. Outline the elements of culture as seen by an anthropologist. How can a marketer use this cultural scheme?
11. Social institutions affect culture and marketing in a variety of ways. Discuss, giving examples.
12. "Markets are the result of the three-way interaction of a marketer's efforts, economic conditions, and all other elements of the culture." Comment.
13. What are some particularly troublesome problems caused by language in foreign marketing? Discuss.
14. Suppose you were asked to prepare a cultural analysis for a potential market. What would you do? Outline the steps and comment briefly on each.
15. Cultures are dynamic. How do they change? Are there cases in which changes are not resisted but actually preferred? Explain. What is the relevance to marketing?
16. How can resistance to cultural change influence product introduction? Are there any similarities in domestic marketing? Explain, giving examples.
17. Innovations are described as either functional or dysfunctional. Explain and give examples of each.
18. Defend the proposition that a multinational corporation has no responsibility for the consequences of an innovation beyond the direct effects of the innovation, such as the product's safety, performance, and so forth.
19. Find a product whose introduction into a foreign culture may cause dysfunctional consequences and describe how the consequences might be eliminated and the product still profitably introduced.

Chapter 5

Culture, Management Style, and Business Systems



CHAPTER OUTLINE

Global Perspective: Do Blondes Have More Fun in Japan?

Required Adaptation

Degree of Adaptation
Imperatives, Electives, and Exclusives

The Impact of American Culture on Management Style

Management Styles around the World

Authority and Decision Making
Management Objectives and Aspirations
Communication Styles
Formality and Tempo
P-Time versus M-Time
Negotiations Emphasis
Marketing Orientation

Gender Bias in International Business

Business Ethics

Corruption Defined
The Western Focus on Bribery
Bribery: Variations on a Theme
Ethical and Socially Responsible Decisions
Culture's Influence on Strategic Thinking

Synthesis: Relationship-Oriented versus Information-Oriented Cultures

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 5:

- LO1** The necessity for adapting to cultural differences
- LO2** How and why management styles vary around the world
- LO3** The extent and implications of gender bias in other countries
- LO4** The importance of cultural differences in business ethics
- LO5** The differences between relationship-oriented and information-oriented cultures

Global Perspective

DO BLONDES HAVE MORE FUN IN JAPAN?

Recounts one American executive, “My first trip to Japan was pretty much a disaster for several reasons. The meetings didn’t run smoothly because every day at least 20, if not more, people came walking in and out of the room just to look at me. It is one thing to see a woman at the negotiation table, but to see a woman who happens to be blonde, young, and very tall by Japanese standards (5’8” with no shoes) leading the discussions was more than most of the Japanese men could handle.”

“Even though I was the lead negotiator for the Ford team, the Japanese would go out of their way to avoid speaking directly to me. At the negotiation table I purposely sat in the center of my team, in the spokesperson’s strategic position. Their key person would not sit across from me, but rather two places down. Also, no one would address questions and/or remarks to me—to everyone (all male) on our team—but none to me. They would never say my name or acknowledge my presence. And most disconcerting of all, they appeared to be laughing at me. We would be talking about a serious topic such as product liability, I would make a point or ask a question, and after a barrage of Japanese they would all start laughing.”

Another example regards toys and consumer behavior. For years, Barbie dolls sold in Japan looked different from their U.S. counterparts. They had Asian facial features, black hair, and Japanese-inspired fashions.

Then about seven years ago, Mattel Inc. conducted consumer research around the world and learned something surprising: The original Barbie, with her yellow hair and blue eyes, played as well in Hong Kong as it did in Hollywood. Girls didn’t care if Barbie didn’t look like them, at least if you believed their marketing research.

“It’s all about fantasies and hair,” said Peter Broegger, general manager of Mattel’s Asian operations. “Blonde Barbie sells just as well in Asia as in the United States.”

So Mattel began rethinking one of the basic tenets of its \$55 billion global industry—that children in different countries want different playthings. The implications were significant for kids, parents, and particularly the company. In the past, giants such as Mattel, Hasbro Inc., and Lego Co. produced toys and gear in a variety of styles. But Mattel went the other direction, designing and marketing one version worldwide. Sales plummeted, forcing a Barbie makeover that most recently includes Hello Kitty clothes and a new video game, iDesign. Now, even at age 50, Barbie is making money again.

Sources: James D. Hodgson, Yoshihiro Sano, and John L. Graham, *Doing Business with the New Japan, Succeeding in America’s Richest International Market* (Latham, MD: Rowman & Littlefield, 2008); Lisa Banon and Carita Vitzthum, “One-Toy-Fits-All: How Industry Learned to Love the Global Kid,” *The Wall Street Journal*, April 29, 2003, p. A1; Andrea Chang, “Barbie Brings in the Bucks,” *Los Angeles Times*, January 30, 2010, p. B3.



Perhaps nothing causes more problems for Americans negotiating in other countries than their impatience. Everyone around the world knows that delaying tactics work well against time-conscious U.S. bargainers.

ordination to the group, and society's ability to maintain high levels of employment. The feudal background of southern Europe tends to emphasize maintenance of both individual and corporate power and authority while blending those feudal traits with paternalistic concern for minimal welfare for workers and other members of society. Various studies identify North Americans as individualists, Japanese as consensus oriented and committed to the group, and central and southern Europeans as elitists and rank conscious. Although these descriptions are stereotypical, they illustrate cultural differences that are often manifest in business behavior and practices. Such differences also coincide quite well with Hofstede's scores listed in Exhibit 4.5 in the last chapter.²

A lack of empathy for and knowledge of foreign business practices can create insurmountable barriers to successful business relations. Some businesses plot their strategies with the idea that their counterparts from other business cultures are similar to themselves and are moved by similar interests, motivations, and goals—that they are “just like us.” Even though that may be true in some respects, enough differences exist to cause frustration, miscommunication, and, ultimately, failed business opportunities if these differences are not understood and responded to properly.

Knowledge of the *management style*—that is, the business culture, management values, and business methods and behaviors—existing in a country and a willingness to accommodate the differences are important to success in an international market. Unless marketers remain flexible by accepting differences in basic patterns of thinking, local business tempo, religious practices, political structure, and family loyalty, they are hampered, if not prevented, from reaching satisfactory conclusions to business transactions. In such situations, obstacles take many forms, but it is not unusual to have one negotiator's business proposition accepted over another's simply because “that one understands us.”

This chapter focuses on matters specifically related to management style. Besides an analysis of the need for adaptation, it reviews differences in management styles and ethics and concludes with a discussion of culture's influence on strategic thinking.

Required Adaptation

LO1

The necessity for adapting to cultural differences

Adaptation is a key concept in international marketing, and willingness to adapt is a crucial attitude. Adaptation, or at least accommodation, is required on small matters as well as large ones.³ In fact, small, seemingly insignificant situations are often the most crucial. More than tolerance of an alien culture is required. Affirmative acceptance, that is, open tolerance may be needed as well. Through such affirmative acceptance, adaptation becomes easier because empathy for another's point of view naturally leads to ideas for meeting cultural differences.

Culture, including all its elements, profoundly affects management style and overall business systems. This is not a new idea. German sociologist Max Weber made the first strong case back in 1930.¹ Culture not only establishes the criteria for day-to-day business behavior but also forms general patterns of values and motivations. Executives are largely captives of their heritages and cannot totally escape the elements of culture they learned growing up.

In the United States, for example, the historical perspective of individualism and “winning the West” seems to be manifest in individual wealth or corporate profit being dominant measures of success. Japan's lack of frontiers and natural resources and its dependence on trade have focused individual and corporate success criteria on uniformity, sub-

¹Max Weber, *The Protestant Ethic and Spirit of Capitalism* (London: George Allen & Unwin, 1930, 1976).

²Geert Hofstede, *Culture's Consequences*, 2nd ed. (Thousand Oaks, CA: Sage, 2001).

³Emily Maltby, “Expanding Abroad? Avoid Cultural Gaffes,” *The Wall Street Journal*, January 19, 2010, p. B5.

As a guide to adaptation, all who wish to deal with individuals, firms, or authorities in foreign countries should be able to meet 10 basic criteria: (1) open tolerance, (2) flexibility, (3) humility, (4) justice/fairness, (5) ability to adjust to varying tempos, (6) curiosity/interest, (7) knowledge of the country, (8) liking for others, (9) ability to command respect, and (10) ability to integrate oneself into the environment. In short, add the quality of adaptability to the qualities of a good executive for a composite of the successful international marketer. It is difficult to argue with these 10 items. As one critic commented, “They border on the 12 Boy Scout laws.” However, as you read this chapter, you will see that it is the obvious that we sometimes overlook.

Degree of Adaptation

Adaptation does not require business executives to forsake their ways and change to local customs; rather, executives must be aware of local customs and be willing to accommodate those differences that can cause misunderstandings. Essential to effective adaptation is awareness of one’s own culture and the recognition that differences in others can cause anxiety, frustration, and misunderstanding of the host’s intentions. The self-reference criterion (SRC) is especially operative in business customs. If we do not understand our foreign counterpart’s customs, we are more likely to evaluate that person’s behavior in terms of what is familiar to us. For example, from an American perspective, a Brazilian executive interrupting frequently during a business meeting may seem quite rude, even though such behavior simply reflects a cultural difference in conversational coordination.

The key to adaptation is to remain American but to develop an understanding of and willingness to accommodate the differences that exist. A successful marketer knows that in China it is important to make points without winning arguments; criticism, even if asked for, can cause a host to lose face. In Germany, it is considered discourteous to use first names unless specifically invited to do so. Instead, address a person as Herr, Frau, or Fraulein with the last name. In Brazil, do not be offended by the Brazilian inclination to touch during conversation. Such a custom is not a violation of your personal space but rather the Brazilian way of greeting, emphasizing a point, or making a gesture of goodwill and friendship. A Chinese, German, or Brazilian does not expect you to act like one of them. After all, you are American, not Chinese, German, or Brazilian, and it would be foolish for an American to give up the ways that have contributed so notably to American success. It would be equally foolish for others to give up their ways. When different cultures meet, open tolerance and a willingness to accommodate each other’s differences are necessary. Once a marketer is aware of cultural differences and the probable consequences of failure to adapt or accommodate, the seemingly endless variety of customs must be assessed. Where does one begin? Which customs should be absolutely adhered to? Which others can be ignored? Fortunately, among the many obvious differences that exist between cultures, only a few are troubling.

Imperatives, Electives, and Exclusives

Business customs can be grouped into *imperatives*, customs that must be recognized and accommodated; *electives*, customs to which adaptation is helpful but not necessary; and *exclusives*, customs in which an outsider must not participate. An international marketer must appreciate the nuances of cultural imperatives, cultural electives, and cultural exclusives.

Cultural Imperatives. **Cultural imperatives** are the business customs and expectations that must be met and conformed to or avoided if relationships are to be successful. Successful businesspeople know the Chinese word *guanxi*,⁴ the Japanese *ningen kankei*, or the Latin American *compadre*. All refer to friendship, human relations, or attaining a level of trust.⁵ They also know there is no substitute for establishing friendship in some cultures before effective business negotiations can begin.

⁴Alaka N. Rao, Jone L. Pearce, and Katherine Xin, “Governments, Reciprocal Exchange, and Trust Among Business Associates,” *Journal of International Business Studies* 36 (2005), pp. 104–18; Kam-hon Lee, Gong-ming Qian, Julie H. Yu, and Ying Ho, “Trading Favors for Marketing Advantage: Evidence from Hong Kong, China, and the United States” *Journal of International Marketing* 13 (2005), pp. 1–35.

⁵Srilata Zaheer and Akbar Zaheer, “Trust across Borders,” *Journal of International Business Studies* 37 (2006), pp. 21–29.

Informal discussions, entertaining, mutual friends, contacts, and just spending time with others are ways *guanxi*, *ningen kankei*, *compadre*, and other trusting relationships are developed. In those cultures in which friendships are a key to success, the businessperson should not slight the time required for their development. Friendship motivates local agents to make more sales, and friendship helps establish the right relationship with end users, which leads to more sales over a longer period. Naturally, after-sales service, price, and the product must be competitive, but the marketer who has established *guanxi*, *ningen kankei*, or *compadre* has the edge. Establishing friendship is an imperative in many cultures. If friendship is not established, the marketer risks not earning trust and acceptance, the basic cultural prerequisites for developing and retaining effective business relationships.

The significance of establishing friendship cannot be overemphasized, especially in those countries where family relationships are close. In China, for example, the outsider is, at best, in fifth place in order of importance when deciding with whom to conduct business. The family is first, then the extended family, then neighbors from one's hometown, then former classmates, and only then, reluctantly, strangers—and the last only after a trusting relationship has been established.

In some cultures, a person's demeanor is more critical than in other cultures. For example, it is probably never acceptable to lose your patience, raise your voice, or correct someone in public, no matter how frustrating the situation. In some cultures such behavior would only cast you as boorish, but in others, it could end a business deal. In Asian cultures it is imperative to avoid causing your counterpart to lose face. In China, to raise your voice, to shout at a Chinese person in public, or to correct one in front of his or her peers will cause that person to lose face.

A complicating factor in cultural awareness is that what may be an imperative to avoid in one culture is an imperative to do in another. For example, in Japan, prolonged eye contact is considered offensive, and it is imperative that it be avoided. However, with Arab and Latin American executives, it is important to make strong eye contact, or you run the risk of being seen as evasive and untrustworthy.

Cultural Electives. **Cultural electives** relate to areas of behavior or to customs that cultural aliens may wish to conform to or participate in but that are not required. In other words, following the custom in question is not particularly important but is permissible. The majority of customs fit into this category. One need not greet another man with a kiss (a custom in some countries), eat foods that disagree with the digestive system (so long as the refusal is gracious), or drink alcoholic beverages (if for health, personal, or religious reasons). However, a symbolic attempt to participate in such options is not only acceptable but also may help establish rapport. It demonstrates that the marketer has studied the culture. Japanese do not expect a Westerner to bow and to understand the ritual of bowing among Japanese, yet a symbolic bow indicates interest and some sensitivity to Japanese culture that is acknowledged as a gesture of goodwill. It may help pave the way to a strong, trusting relationship.

A cultural elective in one country may be an imperative in another. For example, in some cultures, one can accept or tactfully and politely reject an offer of a beverage, whereas in other cases, the offer of a beverage is a special ritual and to refuse it is an insult. In the Czech Republic, an aperitif or other liqueur offered at the beginning of a business meeting, even in the morning, is a way to establish goodwill and trust. It is a sign that you are being welcomed as a friend. It is imperative that you accept unless you make it clear to your Czech counterpart that the refusal is because of health or religion. Chinese business negotiations often include banquets at which large quantities of alcohol are consumed in an endless series of toasts. It is imperative that you participate in the toasts with a raised glass of the offered beverage, but to drink is optional. Your Arab business associates will offer coffee as part of the important ritual of establishing a level of friendship and trust; you should accept, even if you only take a ceremonial sip. Cultural electives are the most



BEIJING, CHINA: German Chancellor Angela Merkel and Chinese Prime Minister Wen Jiabao toast after the EU–China Business Summit at the Great Hall of the People in Beijing. The summit was boosted by the settlement of a trade row that had left 80 million Chinese-made garments piled up in European seaports, unable to be delivered to shops under a quota pact agreed to at the time. Drinking half a bottle is a cultural elective, but taking a sip is more of an imperative in this case.

visibly different customs and thus, more obvious. Often, it is compliance with the less obvious imperatives and exclusives that is more critical.

Cultural Exclusives. **Cultural exclusives** are those customs or behavior patterns reserved exclusively for the locals and from which the foreigner is barred. For example, a Christian attempting to act like a Muslim would be repugnant to a follower of Mohammed. Equally offensive is a foreigner criticizing or joking about a country's politics, mores, and peculiarities (that is, peculiar to the foreigner), even though locals may, among themselves, criticize such issues. There is truth in the old adage, "I'll curse my brother, but if you curse him, you'll have a fight." Few cultural traits are reserved exclusively for locals, but a foreigner must carefully refrain from participating in those that are.

Foreign managers need to be perceptive enough to know when they are dealing with an imperative, an elective, or an exclusive and have the adaptability to respond to each. There are not many imperatives or exclusives, but most offensive behaviors result from not recognizing them. It is not necessary to obsess over committing a faux pas. Most sensible businesspeople will make allowances for the occasional misstep. But the fewer you make, the smoother the relationship will be. By the way, you can ask for help. That is, if you have a good relationship with your foreign counterparts, you can always ask them to tell you when and how you have "misbehaved."

The Impact of American Culture on Management Style

There are at least three reasons to focus briefly on American culture and management style. First, for American readers, it is important to be aware of the elements of culture influencing decisions and behaviors. Such a self-awareness will help American readers adapt to working with associates in other cultures. Second, for readers new to American culture, it is useful to better understand your business associates from the States. The U.S. market is the biggest export market in the world, and we hope this knowledge will help everyone be more patient while conducting business across borders. Third, since the late 1990s, American business culture has been exported around the world, just as in the 1980s Japanese management practices were imitated almost everywhere. Management practices developed in the U.S. environment will not be appropriate and useful everywhere. That is clear. So understanding their bases will help everyone make decisions about applying, adapting, or rejecting American practices. Indeed, most often Peter Drucker's advice will apply: "Different people have to be managed differently."⁶

There are many divergent views regarding the most important ideas on which normative U.S. cultural concepts are based. Those that occur most frequently in discussions of cross-cultural evaluations are represented by the following:

- "Master of destiny" viewpoint.
- Independent enterprise as the instrument of social action.
- Personnel selection and reward based on merit.
- Decisions based on objective analysis.
- Wide sharing in decision making.
- Never-ending quest for improvement.
- Competition producing efficiency.

The "master of destiny" philosophy is fundamental to U.S. management thought. Simply stated, people can substantially influence the future; they are in control of their own destinies. This viewpoint also reflects the attitude that though luck may influence an individual's future, on balance, persistence, hard work, a commitment to fulfill expectations, and effective use of time give people control of their destinies. In contrast, many cultures have a more fatalistic approach to life. They believe individual destiny is determined by a higher order and that what happens cannot be controlled.

⁶Peter F. Drucker, *Management Challenges for the 21st Century* (New York: HarperBusiness, 1999), p. 17.

In the United States, approaches to planning, control, supervision, commitment, motivation, scheduling, and deadlines are all influenced by the concept that individuals can control their futures. Recall from Chapter 4 that the United States scored highest on Hofstede's individualism scale.⁷ In cultures with more collectivistic and fatalistic beliefs, these good business practices may be followed, but concern for the final outcome is different. After all, if one believes the future is determined by an uncontrollable higher order, then what difference does individual effort really make?

The acceptance of the idea that *independent enterprise* is an instrument for social action is the fundamental concept of U.S. corporations. A corporation is recognized as an entity that has rules and continuity of existence and is a separate and vital social institution. This recognition can result in strong feelings of obligation to serve the company. Indeed, the company may take precedence over family, friends, or activities that might detract from what is best for the company. This idea is in sharp contrast to the attitudes held by Mexicans, who feel strongly that personal relationships are more important in daily life than work and the company, and Chinese, who consider a broader set of stakeholders as crucial.

Consistent with the view that individuals control their own destinies is the belief that personnel selection and reward must be made on *merit*. The selection, promotion, motivation, or dismissal of personnel by U.S. managers emphasizes the need to select the best-qualified persons for jobs, retaining them as long as their performance meets standards of expectations and continuing the opportunity for upward mobility as long as those standards are met. In other cultures where friendship or family ties may be more important than the vitality of the organization, the criteria for selection, organization, and motivation are substantially different from those in U.S. companies. In some cultures, organizations expand to accommodate the maximum number of friends and relatives. If one knows that promotions are made on the basis of personal ties and friendships rather than on merit, a fundamental motivating lever is lost. However, in many other cultures, social pressure from one's group often motivates strongly. Superstitions can even come into play in personnel selection; in Japan, a person's blood type can influence hiring decisions!⁸

The very strong belief in the United States that business decisions are based on *objective analysis* and that managers strive to be scientific has a profound effect on the U.S. manager's attitudes toward objectivity in decision making and accuracy of data. Although judgment and intuition are important tools for making decisions, most U.S. managers believe decisions must be supported and based on accurate and relevant information. Thus, in U.S. business, great emphasis is placed on the collection and free flow of information to all levels within the organization and on frankness of expression in the evaluation of business opinions or decisions. In other cultures, such factual and rational support for decisions is not as important; the accuracy of data and even the proper reporting of data are not prime prerequisites. Furthermore, existing data frequently are for the eyes of a select few. The frankness of expression and openness in dealing with data, characteristic of U.S. businesses, do not fit easily into some cultures.

Compatible with the views that one controls one's own destiny and that advancement is based on merit is the prevailing idea of *wide sharing in decision making*. Although decision making is not a democratic process in U.S. businesses, there is a strong belief that individuals in an organization require and, indeed, need the responsibility of making decisions for their continued development. Thus, decisions are frequently decentralized, and the ability as well as the responsibility for making decisions is pushed down to lower ranks of management. In many cultures, decisions are highly centralized, in part because of the belief that only a few in the company have the right or the ability to make decisions. In the Middle East, for example, only top executives make decisions.

A key value underlying the American business system is reflected in the notion of a *never-ending quest for improvement*. The United States has always been a relatively activist society; in many walks of life, the prevailing question is "Can it be done better?" Thus,

⁷Hofstede, *Culture's Consequences*.

⁸David Picker, "Blood, Sweat, and Type O," *The New York Times*, December 14, 2006, p. C15.



What's different about Adam Smith's, "By pursuing his own interests he frequently promotes that of society more effectually than when he really intended to promote it," and Gordon Gekko's, "Greed is good" statements? It's the adverb. Smith didn't say "always," "most of the time," or even "often." He said "frequently." Today many on Wall Street ignore this crucial difference.

management concepts reflect the belief that change is not only normal but also necessary, that nothing is sacred or above improvement. Results are what count; if practices must change to achieve results, then change is in order. In other cultures, the strength and power of those in command frequently rest not on change but on the premise that the status quo demands stable structure. To suggest improvement implies that those in power have failed; for someone in a lower position to suggest change would be viewed as a threat to another's private domain rather than the suggestion of an alert and dynamic individual.

Perhaps most fundamental to Western management practices is the notion that *competition is crucial for efficiency*, improvement, and regeneration. Gordon Gekko put it most banally in the movie *Wall Street*: "Greed is good." Adam Smith in his *The Wealth of Nations* wrote one of the most important sentences in the English language: "By pursuing his own interests he frequently promotes that of the society more effectually than when he really intended to promote it."⁹ This "invisible hand" notion justifies competitive behavior because it improves society and its organizations. Competition among salespeople (for example, sales contests) is a good thing because it promotes better individual performance and, consequently, better corporate performance. However, managers and policymakers in other cultures often do not share this "greed is good" view. Cooperation is more salient, and efficiencies are attained through reduced transaction costs. These latter views are more prevalent in collectivistic cultures such as China and Japan.

Management Styles around the World¹⁰

LO2

How and why management styles vary around the world

Because of the diverse structures, management values, and behaviors encountered in international business, there is considerable variation in the ways business is conducted.¹¹ No matter how thoroughly prepared a marketer may be when approaching a foreign market, a certain amount of cultural shock occurs when

⁹Adam Smith, *The Wealth of Nations*, Book IV (1776; reprint, New York: Modern Library, 1994), p. 485.

¹⁰A Web site that provides information about management styles around the world is www.globalnegotiationresources.com.

¹¹Sam Han, Tony Kang, Stephen Salter, and Yong Keun Yoo, "A Cross-Country Study on the Effects of National Culture on Earnings Management," *Journal of International Business Studies* 41 (2010), pp. 123–41.

differences in the contact level, communications emphasis, tempo, and formality of foreign businesses are encountered. Ethical standards differ substantially across cultures, as do rituals such as sales interactions and negotiations. In most countries, the foreign trader is also likely to encounter a fairly high degree of government involvement. Among the four dimensions of Hofstede's cultural values discussed in Chapter 4, the Individualism/Collectivism Index (IDV) and Power Distance Index (PDI) are especially relevant in examining methods of doing business cross-culturally.

Authority and Decision Making

Business size, ownership, public accountability, and cultural values that determine the prominence of status and position (PDI) combine to influence the authority structure of business. In high-PDI countries such as Mexico and Malaysia, understanding the rank and status of clients and business partners is much more important than in more egalitarian (low-PDI) societies such as Denmark and Israel. In high-PDI countries, subordinates are not likely to contradict bosses, but in low-PDI countries, they often do. Although the international businessperson is confronted with a variety of authority patterns that can complicate decision making in the global environment, most are a variation of three typical patterns: top-level management decisions, decentralized decisions, and committee or group decisions.

Top-level management decision making is generally found in situations in which family or close ownership¹² gives absolute control to owners and businesses are small enough to allow such centralized decision making. In many European businesses, such as those in France, decision-making authority is guarded jealously by a few at the top who exercise tight control. In other countries, such as Mexico and Venezuela, where a semifeudal, land-equals-power heritage exists, management styles are characterized as autocratic and paternalistic. Decision-making participation by middle management tends to be deemphasized; dominant family members make decisions that tend to please the family members more than to increase productivity. This description is also true for government-owned companies in which professional managers have to follow decisions made by politicians, who generally lack any working knowledge about management. In Middle Eastern countries, the top man makes all decisions and prefers to deal only with other executives with decision-making powers. There, one always does business with an individual per se rather than an office or title.

As businesses grow and professional management develops, there is a shift toward decentralized management decision making. Decentralized decision making allows executives at different levels of management to exercise authority over their own functions. As mentioned previously, this approach is typical of large-scale businesses with highly developed management systems, such as those found in the United States. A trader in the United States is likely to be dealing with middle management, and title or position generally takes precedence over the individual holding the job.

Committee decision making is by group or consensus. Committees may operate on a centralized or decentralized basis, but the concept of committee management implies something quite different from the individualized functioning of the top management and decentralized decision-making arrangements just discussed. Because Asian cultures and religions tend to emphasize harmony and collectivism, it is not surprising that group decision making predominates there. Despite the emphasis on rank and hierarchy in Japanese social structure, business emphasizes group participation, group harmony, and group decision making—but at the top management level.

The demands of these three types of authority systems on a marketer's ingenuity and adaptability are evident. In the case of the authoritative and delegated societies, the chief

¹²Several researchers have empirically demonstrated the influence and downside of such authority structures. See Kathy Fogel, "Oligarchic Family Control, Social Economic Outcomes, and the Quality of Government," *Journal of International Business Studies* 37 (2006), pp. 603–22; Naresh Kharti, Eric W. K. Tsang, and Thomas M. Begley, "Cronyism: A Cross-Cultural Analysis," *Journal of International Business Studies* 37 (2006), pp. 61–75; Ekin K. Pellegrini and Terri A. Scandura, "Leader-Member Exchange (LMX), Paternalism, and Delegation in the Turkish Business Culture: An Empirical Investigation," *Journal of International Business Studies* 37 (2006), pp. 264–79.

CROSSING BORDERS 5.1

Don't Beat Your Mother-in-Law!

The crowding and collectivism of Chinese culture provide fertile ground for hierarchy. Add in a little Confucian advice, and status relationships become central for understanding Chinese business systems. Confucius's teachings were the foundation for Chinese education for 2,000 years, until 1911. He defined five cardinal relationships: between ruler and ruled, husband and wife, parents and children, older and younger brothers, and friends. Except for the last, all relationships were hierarchical. The ruled, wives, children, and younger brothers, were all counseled to trade obedience and loyalty for the benevolence of their rulers, husbands, parents, and older brothers, respectively. Strict adherence to these vertical relations yielded social harmony, the antidote for the violence and civil war of his time.

Obedience and deference to one's superiors remain strong values in Chinese culture. The story of the Cheng family illustrates the historical salience of social hierarchy and high power distance:

In October 1865, Cheng Han-cheng's wife had the insolence to beat her mother-in-law. This was regarded as such a heinous crime that the following punishment was meted out: Cheng and his wife were both skinned alive, in front of the mother, their skin displayed at city gates in various towns and their bones burned to ashes. Cheng's granduncle, the eldest of his close relatives, was beheaded; his uncle and two brothers, and the

head of the Cheng clan, were hanged. The wife's mother, her face tattooed with the words "neglected the daughter's education," was paraded through seven provinces. Her father was beaten 80 strokes and banished to a distance of 3,000 li. The heads of the family in the houses to the right and left of Cheng's were beaten 80 strokes and banished to Heilung-kiang. The educational officer in town was beaten 60 strokes and banished to a distance of 1,000 li. Cheng's nine-month-old boy was given a new name and put in the county magistrate's care. Cheng's land was to be left in waste "forever." All this was recorded on a stone stele, and rubbings of the inscriptions were distributed throughout the empire.

We recommend you have your children read this story! But seriously, notice the authorities held responsible the entire social network for the woman's breach of hierarchy. Status is no joke among Chinese. Age and rank of executives and other status markers must be taken into account during business negotiations with Chinese. American informality and egalitarianism will not play well on the western side of the Pacific.

Sources: Dau-lin Hsu, "The Myth of the 'Five Human Relations' of Confucius," *Monumenta Sinica* 1970, pp. 29, 31, quoted in Gary G. Hamilton, "Patriarchalism in Imperial China and Western Europe: A Revision of Weber's Sociology of Domination," *Theory and Society* 13, pp. 393–425; N. Mark Lam and John L. Graham, *China Now, Doing Business in the World's Most Dynamic Market* (New York: McGraw-Hill, 2007).

problem is to identify the individual with authority. In the committee decision setup, every committee member must be convinced of the merits of the proposition or product in question. The marketing approach to each of these situations differs.

Management Objectives and Aspirations

The training and background (i.e., cultural environment) of managers significantly affect their personal and business outlooks.¹³ Society as a whole establishes the social rank or status of management, and cultural background dictates patterns of aspirations and objectives among businesspeople. One study reports that higher CEO compensation is found in Scandinavian firms exposed to Anglo-American financial influence and in part reflects a pay premium for increased risk of dismissal.¹⁴ These cultural influences affect the attitude of managers toward innovation, new products, and conducting business with foreigners. To fully understand another's management style, one must appreciate an individual's values, which are usually reflected in the goals of the business organization and in the practices that prevail within the company. In dealing with foreign business, a marketer must be particularly aware of the varying objectives and aspirations of management.

¹³Ted Baker, Eric Gedajlovic, and Michael Lubatkin, "A Framework for Comparing Entrepreneurship Processes across Nations," *Journal of International Business Studies* 36 (2005), pp. 492–504.

¹⁴Lars Oxelheim and Trond Randoy, "The Anglo-American Financial Influence on CEO Compensation in non-Anglo-American Firms," *Journal of International Business Studies* 36 (2005), pp. 470–83.

Security and Mobility. Personal security and job mobility relate directly to basic human motivation and therefore have widespread economic and social implications. The word *security* is somewhat ambiguous, and this very ambiguity provides some clues to managerial variation. To some, security means a big paycheck and the training and ability required for moving from company to company within the business hierarchy; for others, it means the security of lifetime positions with their companies; to still others, it means adequate retirement plans and other welfare benefits. European companies, particularly in the more hierarchical (PDI) countries, such as France and Italy, have a strong paternalistic orientation, and it is assumed that individuals will work for one company for the majority of their lives. For example, in Britain, managers place great importance on individual achievement and autonomy, whereas French managers place great importance on competent supervision, sound company policies, fringe benefits, security, and comfortable working conditions. French managers have much less mobility than British. Finally, research has shown such differences to be general—commitment of workers to their companies tended to be higher in countries higher in individualism (IDV) and lower in power distance (PDI).¹⁵

Personal Life. For many individuals, a good personal and/or family life takes priority over profit, security, or any other goal.¹⁶ In his worldwide study of individual aspirations, David McClelland¹⁷ discovered that the culture of some countries stressed the virtue of a good personal life as far more important than profit or achievement. The hedonistic outlook of ancient Greece explicitly included work as an undesirable factor that got in the way of the search for pleasure or a good personal life. Alternatively, according to Max Weber,¹⁸ at least part of the standard of living that we enjoy in the United States today can be attributed to the hard-working Protestant ethic from which we derive much of our business heritage.

To the Japanese, personal life is company life. Many Japanese workers regard their work as the most important part of their overall lives. The Japanese work ethic—maintenance of a sense of purpose—derives from company loyalty and frequently results in the Japanese employee maintaining identity with the corporation. Although this notion continues to be true for the majority, strong evidence indicates that the faltering Japanese economy has affected career advancement patterns¹⁹ and has moved the position of the Japanese “salary man” from that of one of Japan’s business elite to one of some derision. Japan’s business culture is gradually shifting away from the lifelong employment that led to intense company loyalty. Now even Japanese formality at the office is bowing to higher oil prices; ties and buttoned collars are being shed to leave thermostats set at 82 degrees.

We can get some measure of the work–personal life trade-off made in different cultures with reference to Exhibit 5.1. As a point of reference, 40 hours per week times 50 weeks

¹⁵Ronald Fischer and Angela Mansell, “Commitment across Cultures: A Meta-Analytic Approach,” *Journal of International Business Studies* 40 (2009), pp. 1339–58.

¹⁶David Gauthier-Villars, “Mon Dieu! Sunday Work Hours Upset French Devotion to Rest,” *The Wall Street Journal*, July 24, 2009, online.

¹⁷David C. McClelland, *The Achieving Society* (New York: The Free Press, 1985).

¹⁸Weber, *The Protestant Ethic*.

¹⁹George Graen, Ravi Dharwadkar, Rajdeep Grewal, and Mitsuru Wakabayashi, “Japanese Career Progress: An Empirical Examination,” *Journal of International Business Studies* 37 (2006), pp. 148–61.

Exhibit 5.1 Annual Hours Worked

Source: OECD, Labor Market Indicators, 2010.

United Kingdom	1670
Canada	1736
Germany	1433
Netherlands	1392
Japan	1785
Norway	1411
United States	1794
S. Korea	2305
Mexico	1871
Italy	1824

CROSSING BORDERS 5.2

The American Tourist and the Mexican Fisherman

An American tourist was at the pier of a small coastal Mexican village when a small boat with just one fisherman docked. Inside the small boat were several large yellowfin tuna. The tourist complimented the Mexican on the quality of the fish and asked how long it took to catch them.

The Mexican replied, "Only a little while."

The tourist then asked, "Why didn't you stay out longer and catch more fish?"

The Mexican replied, "With this I have enough to support my family's needs."

The tourist then asked, "But what do you do with the rest of your time?"

The Mexican fisherman said, "I sleep late, fish a little, play with my children, take a siesta with my wife, Maria, stroll into the village each evening where I sip wine and play guitar with my amigos. I have a full and busy life."

The tourist scoffed, "I can help you. You should spend more time fishing and with the proceeds, buy a bigger boat. With the proceeds from the bigger boat you could buy several boats. Eventually you would have a fleet of fishing boats. Instead of selling your catch to

a middleman you could sell directly to the processor, eventually opening your own cannery. You would control the product, processing, and distribution. You could leave this small village and move to Mexico City, then Los Angeles, and eventually to New York City where you could run your ever-expanding enterprise."

The Mexican fisherman asked, "But, how long will this take?"

The tourist replied, "15 to 20 years."

"But what then?" asked the Mexican.

The tourist laughed and said, "That's the best part. When the time is right you would sell your company stock to the public and become very rich, you would make millions."

"Millions?... Then what?"

The American said, "Then you would retire. Move to a small coastal fishing village where you would sleep late, fish a little, play with your grandkids, take a siesta with your wife, stroll to the village in the evenings where you could sip wine and play your guitar with your amigos."

Source: Author unknown.

equals 2,000 hours. The Americans appear to be in the middle of hours worked, far above the northern Europeans and way below the South Koreans. Most Americans are getting about two weeks of paid vacation, while in Europe they are taking between four and six weeks! In South Korea and other Asian nations, Saturday is a workday. Although we do not list the numbers for China, the new pressures of free enterprise are adding hours and stress there as well. However, the scariest datum isn't in the table. While hours worked are decreasing almost everywhere, in the States the numbers are increasing, up 36 hours from 1990. Thank you Max Weber! We wonder: How will things be in 2020?

Affiliation and Social Acceptance. In some countries, acceptance by neighbors and fellow workers appears to be a predominant goal within business. The Asian outlook is reflected in the group decision making so important in Japan, and the Japanese place high importance on fitting in with their group. Group identification is so strong in Japan that when a worker is asked what he does for a living, he generally answers by telling you he works for Sumitomo or Mitsubishi or Matsushita, rather than that he is a chauffeur, an engineer, or a chemist.

Power and Achievement. Although there is some power seeking by business managers throughout the world, power seems to be a more important motivating force in South American countries. In these countries, many business leaders are not only profit oriented but also use their business positions to become social and political leaders. Related, but different, are the motivations for achievement also identified by management researchers in the United States. One way to measure achievement is by money in the bank; another is high rank—both aspirations particularly relevant to the United States.

Communication Styles

Edward T. Hall, professor of anthropology and for decades a consultant to business and government on intercultural relations, tells us that communication involves much more than just words. His article "The Silent Language of Overseas Business," which appeared



Speaking of office space: Notice the individualism reflected in the American cubicles and the collectivism demonstrated by the Japanese office organization.

in the *Harvard Business Review* in 1960,²⁰ remains a most worthwhile read. In it he describes the symbolic meanings (**silent languages**) of *time*, *space*, *things*, *friendships*, and *agreements* and how they vary across cultures. In 1960 Hall could not have anticipated the innovations brought on by the Internet. However, all of his ideas about cross-cultural communication apply to that medium as well. We begin here with a discussion of communication in the face-to-face setting and then move to the electronic media.

Face-to-Face Communication. No language readily translates into another because the meanings of words differ widely among languages. For example, the word “marriage,” even when accurately translated, can connote very different things in different languages—in one it may mean love, in another restrictions. Although language is the basic communication tool of marketers trading in foreign lands, managers, particularly from the United States, often fail to develop even a basic understanding of just one other language, much less master the linguistic nuances that reveal unspoken attitudes and information.

On the basis of decades of anthropological fieldwork, Hall²¹ places 11 cultures along a high-context/low-context continuum (see Exhibit 5.2). Communication in a high-context culture depends heavily on the contextual (*who* says it, *when* it is said, *how* it is said) or nonverbal aspects of communication, whereas the low-context culture depends more on explicit, verbally expressed communications.

A brief exemplar of the high-/low-context dimension of communication style regards an international marketing executive’s description of a Los Angeles business entertainment event: “I picked him [a German client] up at his hotel near LAX and asked what kind of food he wanted for dinner. He said, ‘Something local.’ Now in LA local food is Mexican food. I’d never met anyone that hadn’t had a taco before! We went to a great Mexican place in Santa Monica and had it all, guacamole, salsa, enchiladas, burritos, a real Alka-Seltzer kind of night. When we were done I asked how he liked the food. He responded rather blandly, ‘It wasn’t very good.’”

The American might have been taken aback by his client’s honest, and perhaps too direct, answer. However, the American knew well about German frankness²² and just rolled with the “blow.” Germans, being very low-context oriented, just deliver the information without any social padding. Most Americans would soften the blow some with an answer more like, “It was pretty good, but maybe a bit too spicy.” And a high-context oriented

²⁰*Harvard Business Review*, May–June 1960, pp. 87–96.

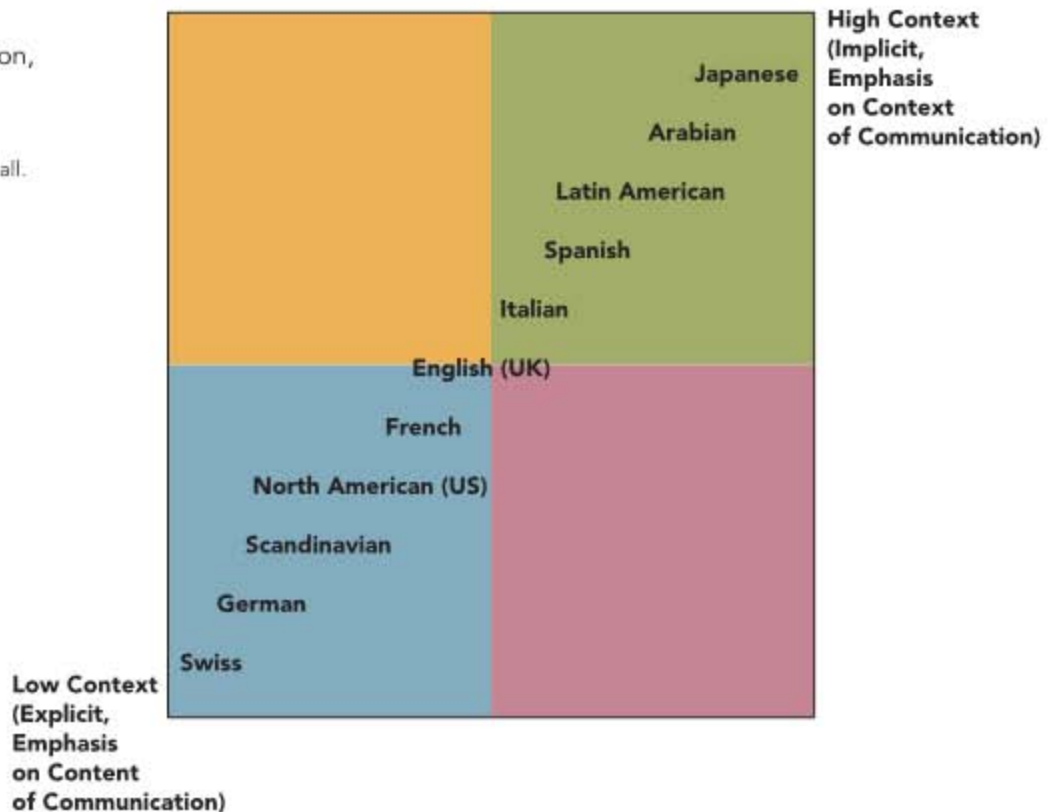
²¹Edward T. Hall, “Learning the Arabs’ Silent Language,” *Psychology Today*, August 1979, pp. 45–53. Hall has several books that should be read by everyone involved in international business, including *The Silent Language* (New York: Doubleday, 1959), *The Hidden Dimension* (New York: Doubleday, 1966), and *Beyond Culture* (New York: Anchor Press-Doubleday, 1976).

²²Interestingly, the etymology of the term “frankness” has to do with the Franks, an ancient Germanic tribe that settled along the Rhine. This is not mere coincidence; it’s history again influencing symbols (that is, language)!

Exhibit 5.2

Context, Communication, and Cultures: Edward Hall's Scale

Note: Patterned after E. T. Hall.



Japanese would really pad the response with something like, "It was very good. Thanks." But then the Japanese would never order Mexican food again.

An American or German might view the Japanese response as less than truthful, but from the Japanese perspective, he was just preserving a harmonious relationship. Indeed, the Japanese have two words for truth, *honne* (true mind) and *tatemae* (official stance).²³ The former delivers the information, and the latter preserves the relationship. And in high-context Japan, the latter is often more important.

Internet Communications. The message on a business-to-business Web site is an extension of the company and should be as sensitive to business customs as any other company representative would be. Once a message is posted, it can be read anywhere, at any time. As a consequence, the opportunity to convey an unintended message is infinite. Nothing about the Web will change the extent to which people identify with their own languages and cultures; thus, language should be at the top of the list when examining the viability of a company's Web site.

Estimates are that 78 percent of today's Web site content is written in English, but an English e-mail message cannot be understood by 35 percent of all Internet users. A study of businesses on the European continent highlights the need for companies to respond in the languages of their Web sites. One-third of the European senior managers surveyed said they would not tolerate English online. They do not believe that middle managers can use English well enough to transact business on the Internet.

At the extreme are the French, who even ban the use of English terms. The French Ministry of Finance issued a directive that all official French civil service correspondence must avoid common English-language business words such as *start-up* and *e-mail*; instead, *jeune pousse* (literally, "a young plant") and *courrier électronique* are recommended.

The solution to the problem is to have country-specific Web sites, like those of IBM and Marriott. Dell Computer, for example, makes its Premier Pages Web sites built for

²³James D. Hodgson, Yoshihiro Sano, and John L. Graham, *Doing Business with the New Japan* (Boulder, CO: Rowman & Littlefield, 2008).

its business clients, available in 12 languages. A host of companies specialize in Web site translations; in addition, software programs are available to translate the company message into another language. However, cultural and linguistic correctness remains a problem with machine translation. If not properly done, English phrases are likely to be translated in a way that will embarrass or even damage a company. One way to avoid this issue is to prepare the original source material in easy-to-translate English, devoid of complicated phrases, idioms, or slang. Unfortunately, no machine translation is available that can manage all the nuances of language or syntax.

It would be ideal if every representative of your company spoke fluently the language of and understood the culture of your foreign customers or business associates; but that is an impossible goal for most companies. However, there is no reason why every person who accesses a company's Web site should not be able to communicate in his or her own language if a company wants to be truly global.

In addition to being language friendly, a Web site should be examined for any symbols, icons, and other nonverbal impressions that could convey an unwanted message. Icons that are frequently used on Web sites can be misunderstood. For example, an icon such as a hand making a high-five sign will be offensive in Greece; an image of a thumb-to-index finger, the A-OK gesture, will infuriate visitors in Brazil; a two-fingered peace sign when turned around has a very crude meaning to the British; and AOL's "You've Got Mail" looks a lot like a loaf of bread to a European. Colors can also pose a problem; green is a sacred color in some Middle Eastern cultures and should not be used for something frivolous like a Web background.

Finally, e-mail use and usage rates by managers are also affected by culture. That is, businesspeople in high-context cultures do not use the medium to the same extent as those in low-context cultures. Indeed, the structure of the Japanese language has at least hindered the diffusion of Internet technologies in that country.²⁴ Moreover, businesspeople in Hong Kong behave less cooperatively in negotiations using e-mail than in face-to-face encounters.²⁵ Much of the contextual information so important in high-context cultures simply cannot be signaled via the computer.

Formality and Tempo

The breezy informality and haste that seem to characterize American business relationships appear to be American exclusives that businesspeople from other countries not only fail to share but also fail to appreciate. A German executive commented that he was taken aback when employees of his Indiana client called him by his first name. He noted, "In Germany you don't do that until you know someone for 10 years—and never if you are at a lower rank." This apparent informality, however, does not indicate a lack of commitment to the job. Comparing British and American business managers, an English executive commented about the American manager's compelling involvement in business: "At a cocktail party or a dinner, the American is still on duty."

Even though Northern Europeans seem to have picked up some American attitudes in recent years, do not count on them being "Americanized." As one writer says, "While using first names in business encounters is regarded as an American vice in many countries, nowhere is it found more offensive than in France," where formality still reigns. Those who work side by side for years still address one another with formal pronouns. France is higher on Hofstede's Power Distance Index (PDI) than the United States, and such differences can lead to cultural misunderstandings. For example, the formalities of French business practices as opposed to Americans' casual manners are symbols of the French need to show rank and Americans' tendency to downplay it. Thus, the French are dubbed snobbish by Americans, while the French consider Americans crude and unsophisticated.

Haste and impatience are probably the most common mistakes of North Americans attempting to trade in the Middle East. Most Arabs do not like to embark on serious business discussions until after two or three opportunities to meet the individual they are dealing with; negotiations are likely to be prolonged. Arabs may make rapid decisions once they are prepared to do so, but they do not like to be rushed, and they do not like deadlines. The managing

²⁴Ibid.

²⁵Guang Yang and John L. Graham, "The Impact of Computer-Mediated Communications on the Process and Outcomes of Buyer-Seller Negotiations," working paper, University of California, Irvine, 2010.

partner of the Kuwait office of KPMG Peat Marwick says of the “fly-in visit” approach of many American businesspeople, “What in the West might be regarded as dynamic activity—the ‘I’ve only got a day here’ approach—may well be regarded here as merely rude.”

Marketers who expect maximum success have to deal with foreign executives in ways that are acceptable to the foreigner. Latin Americans depend greatly on friendships but establish these friendships only in the South American way: slowly, over a considerable period of time. A typical Latin American is highly formal until a genuine relationship of respect and friendship is established. Even then, the Latin American is slow to get down to business and will not be pushed. In keeping with the culture, *mañana* (tomorrow) is good enough. How people perceive time helps explain some of the differences between U.S. managers and those from other cultures.

P-Time versus M-Time

Research has demonstrated that managers in Anglo cultures such as the United States tend to be more concerned with time management than managers from either Latin or Asian cultures.²⁶ Our stereotype of Latin cultures, for example, is “they are always late,” and their view of us is “you are always prompt.” Neither statement is completely true, though both contain some truth. What is true, however, is that the United States is a very time-oriented society—time is money to us—whereas in many other cultures, time is to be savored, not spent.

Edward T. Hall defines two time systems in the world: **monochronic** and **polychronic time**. *M-time*, or *monochronic time*, typifies most North Americans, Swiss, Germans, and Scandinavians. These Western cultures tend to concentrate on one thing at a time. They divide time into small units and are concerned with promptness. *M-time* is used in a linear way, and it is experienced as almost tangible, in that one saves time, wastes time, bides time, spends time, and loses time. Most low-context cultures operate on *M-time*. *P-time*, or *polychronic time*, is more dominant in high-context cultures, where the completion of a human transaction is emphasized more than holding to schedules. *P-time* is characterized by the simultaneous occurrence of many things and by “a great involvement with people.” *P-time* allows for relationships to build and context to be absorbed as parts of high-context cultures.

One study comparing perceptions of punctuality in the United States and Brazil found that Brazilian timepieces were less reliable and public clocks less available than in the United States. Researchers also found that Brazilians more often described themselves as late arrivers, allowed greater flexibility in defining *early* and *late*, were less concerned about being late, and were more likely to blame external factors for their lateness than were Americans.²⁷ Please see comparisons of 31 countries in Exhibit 5.3. We note that one study has found the index useful as it well predicts the number of days necessary for obtaining a business license in the 31 countries.²⁸

The American desire to get straight to the point and get down to business is a manifestation of an *M-time* culture, as are other indications of directness. The *P-time* system gives rise to looser time schedules, deeper involvement with individuals, and a wait-and-see-what-develops attitude. For example, two Latin colleagues conversing would likely opt to be late for their next appointments rather than abruptly terminate the conversation before it came to a natural conclusion. *P-time* is characterized by a much looser notion of being on time or late. Interruptions are routine, delays to be expected. It is not so much putting things off until *mañana* as it is the concept that human activity is not expected to proceed like clockwork.

Most cultures offer a mix of *P-time* and *M-time* behavior but have a tendency to adopt either more *P-time* or *M-time* with regard to the role time plays. Some are similar to Japan, where appointments are adhered to with the greatest *M-time* precision but *P-time* is followed once a meeting begins. The Japanese see U.S. businesspeople as too time bound and driven by schedules and deadlines that thwart the easy development of friendships.

When businesspeople from *M-time* and *P-time* meet, adjustments need to be made for a harmonious relationship. Often clarity can be gained by specifying tactfully, for example,

²⁶Glen H. Brodowsky, Beverlee B. Anderson, Camille P. Schuster, Ofer Meilich, and M. Ven Venkatesan, “If Time Is Money Is It a Common Currency? Time in Anglo, Asian, and Latin Cultures,” *Journal of Global Marketing* 21, no. 4 (2008), pp. 245–58.

²⁷Robert Levine, *The Geography of Time* (New York: Basic Books, 1998).

²⁸Runtian Jing and John L. Graham, “Regulation vs. Values: How Culture Plays Its Role,” *Journal of Business Ethics* 80, no. 4 (2008), pp. 791–806.

Exhibit 5.3 Speed Is Relative

Rank of 31 countries for overall pace of life [combination of three measures: (1) minutes downtown pedestrians take to walk 60 feet, (2) minutes it takes a postal clerk to complete a stamp-purchase transaction, and (3) accuracy in minutes of public clocks].

Source: Robert Levine, "The Pace of Life in 31 Countries," *American Demographics*, November, 1997. Copyright © 2010 Crain Communication. Reprinted with permission.

Overall Pace	Country	Walking 60 Feet	Postal Service	Public Clocks
1	Switzerland	3	2	1
2	Ireland	1	3	11
3	Germany	5	1	8
4	Japan	7	4	6
5	Italy	10	12	2
6	England	4	9	13
7	Sweden	13	5	7
8	Austria	23	8	9
9	Netherlands	2	14	25
10	Hong Kong	14	6	14
11	France	8	18	10
12	Poland	12	15	8
13	Costa Rica	16	10	15
14	Taiwan	18	7	21
15	Singapore	25	11	4
16	United States	6	23	20
17	Canada	11	21	22
18	South Korea	20	20	16
19	Hungary	19	19	18
20	Czech Republic	21	17	23
21	Greece	14	13	29
22	Kenya	9	30	24
23	China	24	25	12
24	Bulgaria	27	22	17
25	Romania	30	29	5
26	Jordan	28	27	19
27	Syria	29	28	27
28	El Salvador	22	16	31
29	Brazil	31	24	28
30	Indonesia	26	26	30
31	Mexico	17	31	26

whether a meeting is to be on "Mexican time"²⁹ or "American time." An American who has been working successfully with the Saudis for many years says he has learned to take plenty of things to do when he travels. Others schedule appointments in their offices so they can work until their P-time friend arrives. The important thing for the U.S. manager to learn is adjustment to P-time in order to avoid the anxiety and frustration that comes from being out of synchronization with local time. As global markets expand, however, more businesspeople from P-time cultures are adapting to M-time.

Negotiations Emphasis

Business negotiations are perhaps the most fundamental commercial rituals. All the just-discussed differences in business customs and culture come into play more frequently and more obviously in the negotiating process than in any other aspect of business. The basic elements of business negotiations are the same in any country: They relate to the product, its price and terms, services associated with the product, and, finally, friendship between vendors and customers. But it is important to remember that the negotiating process is complicated, and the risk of misunderstanding increases when negotiating with someone from another culture.

Attitudes brought to the negotiating table by each individual are affected by many cultural factors and customs often unknown to the other participants and perhaps unrecognized by the individuals themselves. His or her cultural background conditions each negotiator's understanding and interpretation of what transpires in negotiating sessions. The possibility of offending one another or misinterpreting others' motives is especially high when one's self-reference criteria (SRC) is the basis for assessing a situation. One standard rule in

²⁹Ken Ellingwood, "Just Late Enough to Be Early," *Los Angeles Times*, September 12, 2009, pp. A1, A25.

negotiating is “know thyself” first and “know your counterpart” second. The SRC of both parties can come into play here if care is not taken. How business customs and culture influence negotiations is the focus of Chapter 19.

Marketing Orientation

The extent of a company’s *marketing orientation* has been shown to relate positively to profits. Although American companies are increasingly embracing this notion (and marketing in general),³⁰ firms in other countries have not been so fast to change from the more traditional *production* (consumers prefer products that are widely available), *product* (consumers favor products that offer the best quality, performance, or innovative features), and *selling* (consumers and businesses alike will not buy enough without prodding) orientations. For example, in many countries, engineers dominate corporate boards, and the focus is more toward a product orientation. However, more profitable American firms have adopted strong marketing orientations wherein everyone in the organization (from shop floor to finance) is encouraged to, and even receive rewards if, they generate, disseminate, and respond to marketing intelligence (that is, consumers’ preferences, competitors’ actions, and regulators’ decisions). Recently researchers have empirically verified that for various complex reasons, including cultural explanations, a marketing orientation is less prevalent in a number of other countries;³¹ and it can be difficult to encourage such an orientation across diverse business units in global companies.³²

Gender Bias in International Business

LO3

The extent and implications of gender bias in other countries

The gender bias against female managers that exists in some countries, coupled with myths harbored by male managers, creates hesitancy among U.S. multinational companies to offer women international assignments. Although women now constitute more than half of the U.S. workforce,³³ they represent relatively small



Two ways to prevent the harassment of women. Mika Kondo Kunieda, a consultant at the World Bank in Tokyo explains, “I ride in a special women-only metro car that runs between 7:20 and 9:20 am. The cars were created in 2005 due to frequent complaints that women were being groped and sexually harassed. I was a victim a few times when I was younger, and it was—and still is—a humiliating experience. I had to learn how to position myself against moves even in the most overcrowded train. Now, I’ve seen a few men get visibly anxious when they realize they’ve accidentally boarded a car during women-only time!”³⁴ The Koran also specifies the cover-up pictured here in Riyadh, Saudi Arabia.

³⁰John F. Gaski and Michael J. Etzel, “National Aggregate Consumer Sentiment toward Marketing: A Thirty-Year Retrospective and Analysis,” *Journal of Consumer Research* 31 (2005), pp. 859–67.

³¹Sin et al., “Marketing Orientation”; John Kuada and Seth N. Buatsi, “Market Orientation and Management Practices in Ghanaian Firms: Revisiting the Jaworski and Kohli Framework,” *Journal of International Marketing* 13 (2005), pp. 58–88; Reto Felix and Wolfgang Hinck, “Market Orientation of Mexican Companies,” *Journal of International Marketing* 13 (2005), pp. 111–27.

³²Paul D. Ellis, “Distance, Dependence and Diversity of Markets: Effects on Market Orientation,” *Journal of International Business Studies* 38 (2007), pp. 374–86.

³³“We Did It!” *The Economist*, January 2, 2010, p. 7.

³⁴“Eye on the World,” *Marie Claire*, April 2007, p. 134.

CROSSING BORDERS 5.3

Cultures Change, Albeit Slowly

SEOUL

In a time-honored practice in South Korea's corporate culture, the 38-year-old manager at an online game company took his 10-person team on twice-weekly after-work drinking bouts. He exhorted his subordinates to drink, including a 29-year-old graphic designer who protested that her limit was two glasses of beer. "Either you drink or you get it from me tomorrow," the boss told her one evening.

She drank, fearing that refusing to do so would hurt her career. But eventually, unable to take the drinking any longer, she quit and sued. In May, in the first ruling of its kind, the Seoul High Court said that forcing a subordinate to drink alcohol was illegal, and it pronounced the manager guilty of a "violation of human dignity." The court awarded the woman \$32,000 in damages for the incidents, which occurred in 2004.

The ruling was as much a testament to women's growing presence in corporate life there as a confirmation of changes already under way. As an increasing number of women have joined companies as professionals, corporate South Korea has struggled to change the country's corporate culture, starting with its attitude toward alcohol.

TOKYO

The experience of Kayoko Mura illustrates a big shift in attitudes of Japanese companies toward female workers. When Mura quit her accounting job 16 years ago, food giant Kagome Co. did little to stop her. She was getting married and felt she could not ask for a transfer to Tokyo, where she and her husband were to live.

But last summer, Kagome's Tokyo office sought out Mura, now 44 years old, and wooed her back to the same kind of job she had had before. It also assigned a system engineer to work with her until she got up to speed with the computer system. Kagome even accepted her request to work part-time, just three days a week, six hours a day. "There are many women who quit after we had spent time and money in training," says Tomoko Sone, a Kagome spokeswoman. "For the company, [not hiring them back] is such a waste."

OSLO

Beginning in 2008, all public companies in Norway were mandated to have at least 40 percent women among their board members. Before the law passed in 2003, 7 percent of corporate board members were women. But the number has risen quickly, as suggested in Exhibit 5.4, to 36 percent in 2008, though 75 companies have yet to meet the quota. Statoil's Chairman of the Board, Grace Reksten Skaugen, explains her gender's advantages: "Women feel more compelled than men to do their homework, and we can afford to ask the hard questions, because women are not always expected to know the answers." Reksten Skaugen was voted Norway's chairperson of the year for 2007.

Sources: Norimitsu Onishi, "Corporate Korea Corks the Bottle as Women Rise," *The New York Times*, June 10, 2007, pp. 1, 4; Miho Inada, "Japanese Companies Woo Women Back to Work," *The Wall Street Journal*, July 23, 2007, pp. B1, B3; Siri Terjesen and Val Singh, "Female Presence on Corporate Boards: A Multi-Country Study," *Journal of Business Ethics* 85 (2008), pp. 55–63; "We Did It!" *The Economist*, January 2, 2010, p. 7.

percentages of the employees who are chosen for international assignments—less than 20 percent. Why? The most frequently cited reason is the inability for women to succeed abroad. As one executive was quoted as saying, "Overall, female American executives tend not to be as successful in extended foreign work assignments as are male American executives." Unfortunately, such attitudes are shared by many and probably stem from the belief that the traditional roles of women in male-dominated societies preclude women from establishing successful relationships with host-country associates. An often-asked question is whether it is appropriate to send women to conduct business with foreign customers in cultures where women are typically not in managerial positions. To some, it appears logical that if women are not accepted in managerial roles within their own cultures, a foreign woman will not be any more acceptable.

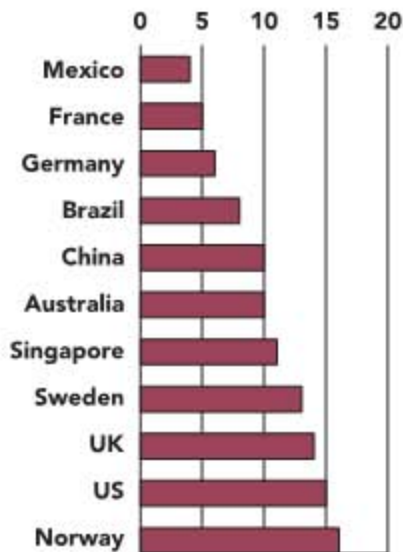
In many cultures—Asian, Middle Eastern, and Latin American—women are not typically found in upper levels of management (see Exhibit 5.4), and men and women are treated very differently. Moreover, the preferred leadership prototypes of male and female leaders varies across countries as well.³⁵ Indeed, the scariest newspaper headline ever written

³⁵Lori D. Paris, Jon P. Howell, Peter W. Dorfman, and Paul J. Hanges, "Preferred Leadership Prototypes of Male and Female Leaders in 27 Countries," *Journal of International Business Studies* 40 (2009), pp. 1396–405.

Exhibit 5.4

Few and Far Between

Source: Siri Terjesen and Val Singh, "Female Presence on Corporate Boards: A Multi-Country Study," *Journal of Business Ethics* 85 (2008), pp. 55–63.



Female directors on corporate boards as a percentage of total.

may have been "Asia, Vanishing Point for as Many as 100 Million Women." The article, appearing in the *International Herald Tribune* in 1991,³⁶ points out that the birthrate in most countries around the world is about 105 boys for every 100 girls. However, in countries like the United States or Japan, where generally women outlive men, there are about 96 men per 100 women in the population. The current numbers of men per 100 women in other Asian countries are as follows: Korea 102, China 103, India 109, and Pakistan 106. The article describes systematic discrimination against females from birth. Now illegal everywhere, ultrasound units are still being used for making gender-specific abortion decisions, and all this prejudice against females is creating disruptive shortages of women. In some provinces in China, there are currently 120 men per 100 women.

Despite the substantial prejudices toward women in foreign countries, evidence suggests that prejudice toward foreign women executives may be exaggerated and that the treatment local women receive in their own cultures is not necessarily an indicator of how a foreign businesswoman is treated. It would be inaccurate to suggest that there is no difference in how male and female managers are perceived in different cultures. However, this difference does not mean that women cannot be successful in foreign postings.

A key to success for both men and women in international business often hinges on the strength of a firm's backing. When a female manager receives training and the strong backing of her firm, she usually receives the respect commensurate with the position she holds and the firm she represents. For success, a woman needs a title that gives immediate credibility in the culture in which she is working and a support structure and reporting relationship that will help her get the job done.³⁷ In short, with the power of the corporate organization behind her, resistance to her as a woman either does not materialize or is less troublesome than anticipated. Once business negotiations begin, the willingness of a business host to engage in business transactions and the respect shown to a foreign businessperson grow or diminish depending on the business skills he or she demonstrates, regardless of gender. As one executive stated, "The most difficult aspect of an international assignment is getting sent, not succeeding once sent."

The number of women in managerial positions (all levels) in most European countries, with the exception of Germany, is comparable to the United States. The International Labor Organization notes that in the United States, 43 percent of managerial positions are held by women, in Britain 33 percent, and in Switzerland 28 percent. In Germany, however, the picture is different. According to one economic source, German female executives hold just 9.2 percent of management jobs and meet stiff resistance from their male counterparts when they vie for upper-level positions. But the good news is an indication that some German businesses are attempting to remedy the situation. One step taken to help boost women up the executive ladder is a so-called cross-mentoring system organized by Lufthansa and seven other major corporations. High-ranking managers in one company offer advice to female managers in another firm in an effort to help them develop the kind of old-boy network that allows male managers to climb the corporate ladder successfully.³⁸

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³⁶See January 7, 1991, p. 1.

³⁷Nancy J. Adler, *International Dimensions of Organizational Behavior* (Mason, OH: Southwestern College Publishing, 2007).

³⁸For broader information about global women's equality (including scores for economic participation and opportunity), go to <http://www.weforum.org> for the *World Economic Forum's Gender Gap Index, 2007*. On the economic opportunity scale, the United States ranks third, Norway eleventh, Germany thirty-second, Japan eighty-third, and Saudi Arabia one hundred-fifteenth, last on the list of 115 countries.

As world markets become more global and international competition intensifies, U.S. companies need to be represented by the most capable personnel available, from entry level to CEO. Research shows that global companies are requiring international experience for top executive positions. Executives who have had international experience are more likely to get promoted, have higher rewards, and have greater occupational tenure. The lack of international experience should not be a structural barrier to breaking through the glass ceiling in corporate America; to limit the talent pool simply because of gender seems shortsighted. The good news is that things are improving worldwide for women in management, and the topic of gender in multinational companies is receiving increasing research attention as well.³⁹

So what about our female Ford executive mentioned at the start of the chapter? She was having no fun in Japan when we left her story. However, by all accounts (from peers, supervisors, and even Japanese counterparts) that first encounter was not representative of her continuing successes with the Japanese. She attributes her subsequent effectiveness to the strong support of her male Ford team members and her own recognition of the importance of building personal relationships with the Japanese. She explains:

My husband, also a Ford manager working with Japanese clients, and I decided to have a few of our Mazda associates over for an “All-American” dinner during their next trip to Detroit. So, we started out inviting three people to our home. We thought this would be a nice intimate way to get to know one another and provide the Japanese with an honest-to-goodness home-made American meal. By the eve of the dinner word had gotten out and we had thirteen for dinner. They sort of invited themselves, they changed their meetings around, and some even flew in from the Chicago Auto Show. We had a wonderful time and for the first time they saw me as a person. A mom and a wife as well as a business associate. We talked about families, some business, not particulars, but world economics and the auto industry in general. The dinner party was a key turning point in my relationships with Mazda.⁴⁰

Business Ethics

LO4

The importance of cultural differences in business ethics

The moral question of what is right or appropriate poses many dilemmas for domestic marketers. Even within a country, ethical standards are frequently not defined or always clear. The problem of business ethics is infinitely more complex in the international marketplace because value judgments differ widely among culturally diverse groups.⁴¹ That which is commonly accepted as right in one country may be completely unacceptable in another, though at least one study has shown relative consistency across 41 countries in the ethics of persuading superiors.⁴² Giving business gifts of high value, for example, is generally condemned in the United States, but in many countries of the world, gifts are not only accepted but also expected.⁴³

Corruption Defined

Indeed, consistent with the discussions about language, the meaning of the word corruption varies considerably around the world. In formerly communist countries where Marxism was an important part of the educational system for many, *profits* can be seen as a kind of

³⁹For example, see K. Praveen Parboteeah, Martin Hoegl, and John B. Cullen, “Managers’ Gender Role Attitudes: A Country Institutional Profile Approach,” *Journal of International Business Studies* 39, no. 5 (2008), pp. 795–813; William Newbury, Liuba Y. Belkin, and Paradis Ansari, “Perceived Career Opportunities from Globalization Capabilities and Attitudes towards Women in Iran and the U.S.,” *Journal of International Business Studies* 39, no. 5 (2008), pp. 814–32.

⁴⁰Hodgson, Sano, and Graham, *Doing Business with the New Japan*.

⁴¹Pallab Paul, Abhijit Roy, and Kausiki Mukhopadhyay, “The Impact of Cultural Values on Marketing Ethical Norms: A Study in India and the United States,” *Journal of International Marketing* 14 (2006), pp. 28–56; Jatinder J. Singh, Scott J. Vitell, Jamal Al-Khatif, and Irvine Clark III, “The Role of Moral Intensity and Personal Moral Philosophies in the Ethical Decision Making of Marketers: A Cross-Cultural Comparison of China and the United States,” *Journal of International Marketing* 15 (2007), pp. 86–112; Srivatsa Seshadri and Greg M. Broekemier, “Ethical Decision Making: Panama-United States Differences in Consumer and Marketing Contexts,” *Journal of Global Marketing* 22 (2009), pp. 299–311.

⁴²David A. Ralston, Carolyn P. Egri, Maria Teresa de la Garza Carranza, and Prem Ramburuth, and 44 colleagues, “Ethical Preferences for Influencing Superiors: A 41 Society Study,” *Journal of International Business Studies* 40 (2009), pp. 1022–45.

⁴³See <http://www.ethics.org> and <http://www.business-ethics.org> for more pertinent information.

Pope Benedict XVI wrote that the Harry Potter books and movies can “deeply distort Christianity in the soul, before it can grow properly.” Meanwhile, Antonio Banderas perhaps helped improve European acceptability for *Shrek 2* when he showed up for the Madrid premiere. In any case, products and services directed at kids get special attention from parents and regulators around the world.



corruption. What American managers view as essential, others view as a sign of exploitation. The *individualism* so important to Americans can also be seen as a kind of corruption. The Japanese have an expression: “The nail that sticks up gets hammered down.” In India many attribute the decline in the society there to the *rampant consumerism*, such as that promoted on MTV. Of course, such rampant consumerism is what kept the American economy afloat right after the turn of the century. In some countries, there is no greater Satan than *R-rated American movies* with their sex and violence. In China, *missionaries* and religious movements are viewed by the government as potentially dangerous and disruptive. Many in sub-Saharan Africa view Western *intellectual property laws* as a kind of exploitation that prevents treatment of AIDS for millions. During the 1997–1998 financial crisis, many government leaders in Southeast Asia decried *currency speculation* as the worst kind of corruption.

Finally, please recall the 2003 homogenization of Barbie described at the beginning of the chapter. Here’s what we predicted in a previous edition of this text: “And then there is *Barbie* having great fun in Japan these days. We hope the love affair lasts, but we are not confident it will. The article does describe the extensive marketing research Mattel did with kids. But there is no mention made about marketing research with their parents.⁴⁴ We guarantee that selling a big-busted, blonde doll to their daughters will be viewed as a kind of corruption by some Asian parents, and perhaps governmental officials as well. Particularly, if America is perceived as pursuing military and economic hegemony, a strong reaction against symbols of America will follow. Watch out Barbie, GI Joe, and your other toy store friends.”

Our criticism of Mattel then was on the mark in three ways. First, sales of Barbie declined worldwide after the global standardization. Second, parents and governments did react. Most scandalous was the Saudi Arabian Barbie ban, underscored on the Web site of the Saudi Committee for the Propagation of Virtue and Prevention of Vice: “Jewish Barbie dolls, with their revealing clothes and shameful postures, accessories and tools are symbols of decadence of the perverted West. Let us beware of her dangers and be careful.”⁴⁵ Third, Mattel’s strategy boosted the sales of its competitors, MGA Entertainment, Inc.’s, multi-ethnic Bratz, Razanne, and, in the Arabian Gulf states, Fulla. Razanne and Fulla were both designed with Muslim girls and Muslim parents in mind. Fulla has waist-length black hair

⁴⁴Lisa Bannon and Carita Vitzthum, “One-Toy-Fits-All,” *The Wall Street Journal*, April 29, 2003, p. A1.

⁴⁵“Saudis Bust Barbie’s ‘Dangers,’” *CBS News*, September 10, 2003.

HOME-GROWN BUSINESS?

As the global economy slowed and China's exports slumped, Beijing cut sales taxes on car and real-estate purchases in certain situations, in hopes of revving up its own consumer engine. At right, a man and woman took a break outside a shop selling Barbie dolls in October. Apparently blonde Barbie doesn't appear to corrupt kids in China!



with red streaks, a round face with big brown eyes, a tan, a flatter chest than Barbie, and clothes that conceal her elbows and knees. We will again touch on this topic as it pertains to marketing research in Chapter 8. But for now, we switch from Barbie to bribery, another kind of corruption.

The Western Focus on Bribery

Before the Enron, WorldCom, and Madoff scandals, to most Americans, the word corruption meant bribery. Now in the domestic context, fraud has moved to the more prominent spot in the headlines.⁴⁶ But high-profile foreign cases of bribery, such as those involving the German giant Siemens and the execution of China's top food and drug official for accepting bribes, underscore the ethical and legal complexities of international business. During the 1970s, for U.S. companies engaged in international markets, bribery became a national issue with public disclosure of political payoffs to foreign recipients by U.S. firms. At the time, the United States had no laws against paying bribes in foreign countries. But for publicly held corporations, the Securities and Exchange Commission's (SEC) rules required accurate public reporting of all expenditures. Because the payoffs were not properly disclosed, many executives were faced with charges of violating SEC regulations.

The issue took on proportions greater than that of nondisclosure because it focused national attention on the basic question of ethics. The business community's defense was that payoffs were a way of life throughout the world: If you didn't pay bribes, you didn't do business. The decision to pay a bribe creates a major conflict between what is ethical and proper and what appears to be profitable and sometimes necessary for business. Many global competitors perceive payoffs as a necessary means to accomplish business goals. A major complaint of U.S. businesses was that other countries did not have legislation as restrictive as does the United States. The U.S. advocacy of global antibribery laws has led to a series of accords by the member nations of the Organization for Economic Cooperation and Development (OECD), the Organization of American States (OAS), and the United Nations Convention against Corruption (UNCAC). Long considered almost a way of business life, bribery and other forms of corruption are now being increasingly criminalized.

Leaders around the world realize that democracy depends on the confidence the people have in the integrity of their government and that corruption undermines economic liberalization. The actions of the OAS, OECD, and UNCAC will obligate a majority of the world's trading nations to maintain a higher standard of ethical behavior than has existed before.

⁴⁶Robert J. Rhee, "The Madoff Scandal, Market Regulatory Failure and the Business Education of Lawyers," *Journal of Corporation Law* 35, no. 2 (2010), pp. 363–92.

Exhibit 5.5

Transparency International Corruption Perception Index

Higher numbers correspond to a lower prevalence of bribe taking. The top 25 and bottom 25 are shown; see <http://www.transparency.org> for the most complete and up-to-date listings.

Rank	Country	CPI Score	Rank	Country	CPI Score
1	New Zealand	9.4	154	Paraguay	2.1
2	Denmark	9.3	154	Yemen	2.1
3	Singapore	9.2	158	Cambodia	2.0
3	Sweden	9.2	158	Central African Republic	2.0
5	Switzerland	9.0	158	Laos	2.0
6	Finland	8.9	158	Tajikistan	2.0
6	Netherlands	8.9	162	Angola	1.9
8	Australia	8.7	162	Congo Brazzaville	1.9
8	Canada	8.7	162	Democratic Republic of Congo	1.9
8	Iceland	8.7	162	Guinea-Bissau	1.9
11	Norway	8.6	162	Kyrgyzstan	1.9
12	Hong Kong	8.2	168	Burundi	1.8
12	Luxembourg	8.2	168	Equatorial Guinea	1.8
14	Germany	8.0	168	Guinea	1.8
14	Ireland	8.0	168	Iran	1.8
16	Austria	7.9	168	Haiti	1.8
17	Japan	7.7	168	Turkmenistan	1.8
17	United Kingdom	7.7	174	Uzbekistan	1.7
19	USA	7.5	175	Chad	1.6
20	Barbados	7.4	176	Iraq	1.5
21	Belgium	7.1	176	Sudan	1.5
22	Qatar	7.0	178	Myanmar	1.4
22	St. Lucia	7.0	179	Afghanistan	1.3
24	France	6.9	180	Somalia	1.1
25	Chile	6.7			

Source: Corruption Perceptions Index 2009. Used by permission of Transparency International. The most recent updated Index is available at <http://www.transparency.org>.

An international organization called Transparency International (TI)⁴⁷ is dedicated to “curbing corruption through international and national coalitions encouraging governments to establish and implement effective laws, policies and anti-corruption programs.” The brand name “Transparency International” has proven most insightful, as more scholars are finding a clear relationship between the availability of information and lower levels of corruption.⁴⁸ Among its various activities, TI conducts an international survey of businesspeople, political analysts, and the general public to determine their perceptions of corruption in 180 countries. In the Corruption Perception Index (CPI), shown in part in Exhibit 5.5, New Zealand, with scores of 9.4 out of a maximum of 10, was perceived to be the least corrupt, and Somalia, with scores of 1.1, as the most corrupt. TI also ranks 22 bribe-paying countries, and the ranking is reported in Exhibit 5.6 in its entirety. TI is very emphatic that its intent is not to expose villains and cast blame but to raise public awareness that will lead to constructive action. As one would expect, those countries receiving low scores are not pleased; however, the effect has been to raise public ire and debates in parliaments around the world—exactly the goal of TI.

The most notable datum in TI’s CPI scores is Japan’s speedy ascendance in the last decade from a score of 5.8 in 1998 to 7.7 in 2009. As a point of comparison, the United

⁴⁷<http://www.transparency.org>.

⁴⁸Cassandra E. DiRienzo, Jayoti Das, Kathryn T. Cort, and John Burbridge Jr., “Corruption and the Role of Information,” *Journal of International Business Studies* 38 (2007), pp. 320–32.

Exhibit 5.6**Transparency International
Bribe Payers Index***

Higher scores correspond to lower levels of bribe paying internationally.

Source: Reprinted from Bribe Payers Index. Copyright © 2009, Transparency International: the global coalition against corruption. Used with permission. For more information, visit <http://www.transparency.org>.

Rank	Country	2008
1	Belgium	8.8
1	Canada	8.8
3	Netherlands	8.7
3	Switzerland	8.7
5	Germany	8.6
5	Japan	8.6
5	United Kingdom	8.6
8	Australia	8.5
9	France	8.1
9	Singapore	8.1
9	USA	8.1
12	Spain	7.9
13	Hong Kong	7.6
14	South Africa	7.5
14	South Korea	7.5
14	Taiwan	7.5
17	Brazil	7.4
17	Italy	7.4
19	India	6.8
20	Mexico	6.6
21	China	6.5
22	Russia	5.9

*Based on responses to questions such as: In the business sectors with which you are most familiar, please indicate how likely companies from the following countries are to pay or offer bribes to win or retain business in this country (respondent's country of residence).

States has stayed the same in the rankings over the same time period at 7.5. No large, affluent country has moved up the rankings this fast. Now, at least according to TI, America is more corrupt than Japan! Although the difference between the two major exporters is perhaps insignificant, the numbers fly in the face of older Americans' criticisms of Japan as "corrupt."

Indeed, Japan's successes in reducing corruption in its business system are all the more remarkable because of its relationship-oriented culture, which would be predicted by many to favor bribery. Finally, the critics are strangely mute regarding the influence of outside pressure, in the form of the aforementioned OECD antibribery convention, which Japan joined in 1999 (the United States also joined the OECD convention in 1999). Long-time observers argue that major changes within Japan often result from such outside influences. Thus, the years 1999–2001 appear to represent the key turning point in Japan's fight against corruption.

Transparency International's CPI is also proving useful in academic studies of the causes and consequences of bribery. Completely consistent with our discussion of the origins and elements of culture in Chapter 4 (see Exhibit 4.4), higher levels of bribery have been found in low-income nations and nations with a communist past, both aspects of the political economy. Additionally, higher levels of bribery have been found in collectivistic (IDV) and high power distance (PDI) countries. Moreover, higher levels of bribery and legal constraints such as the Foreign Corrupt Practices Act have deterred firms' participation in such countries.⁴⁹ Firms seem generally to eschew investments in corrupt countries as well.⁵⁰

⁴⁹H. Rika Houston and John L. Graham, "Culture and Corruption in International Markets: Implications for Policy Makers and Managers," *Consumption, Markets, and Culture* 4, no. 3 (2000), pp. 315–40; Jennifer D. Chandler and John L. Graham, "Relationship-Oriented Cultures, Corruption, and International Marketing Success," *Journal of Business Ethics* 92(2) (2010), pp. 251–67.

⁵⁰Utz Weitzel and Sjors Berns, "Cross-Border Takeovers, Corruption, and Related Aspects of Governance," *Journal of International Business Studies* 37 (2006), pp. 786–806; Alvaro Cuervo-Cazurra, "Who Cares about Corruption," *Journal of International Business Studies* 37 (2006), pp. 807–22.

Finally, when executives of multinational firms behave ethically in such countries, they also tend to promote more ethical business behaviors among their host country counterparts.⁵¹

Bribery: Variations on a Theme

Although bribery is a legal issue, it is also important to see bribery in a cultural context to understand different attitudes toward it. Culturally, attitudes about bribery are significantly different among different peoples. Some cultures seem to be more open about taking bribes, whereas others, like the United States, are publicly contemptuous of such practices. But U.S. firms are far from virtuous—we believe the TI “grade” of a C (7.2) to be about right. Regardless of where the line of acceptable conduct is drawn, there is no country where the people consider it proper for those in position of political power to enrich themselves through illicit agreements at the expense of the best interests of the nation. A first step in understanding the culture of bribery is to appreciate the limitless variations that are often grouped under the word *bribery*. The activities under this umbrella term range from extortion through subornation to lubrication.

Bribery and Extortion. The distinction between bribery and extortion depends on whether the activity resulted from an offer or from a demand for payment. Voluntarily offered payment by someone seeking unlawful advantage is **bribery**. For example, it is bribery if an executive of a company offers a government official payment in exchange for the official incorrectly classifying imported goods so the shipment will be taxed at a lower rate than the correct classification would require. However, it is *extortion* if payments are extracted under duress by someone in authority from a person seeking only what he or she is lawfully entitled to. An example of extortion would be a finance minister of a country demanding heavy payments under the threat that a contract for millions of dollars would be voided.

On the surface, extortion may seem to be less morally wrong because the excuse can be made that “if we don’t pay, we don’t get the contract” or “the official (devil) made me do it.” But even if it is not legally wrong, it is morally wrong—and in the United States it is legally wrong.

Lubrication and Subornation. Another variation of bribery is the difference between lubrication and subornation. **Lubrication** involves a relatively small sum of cash, a gift, or a service given to a low-ranking official in a country where such offerings are not prohibited by law. The purpose of such a gift is to facilitate or expedite the normal, lawful performance of a duty by that official. This practice is common in many countries of the world. A small payment made to dock workers to speed up their pace so that unloading a truck takes a few hours rather than all day is an example of lubrication.

Subornation, in contrast, generally involves giving large sums of money—frequently not properly accounted for—designed to entice an official to commit an illegal act on behalf of the one offering the bribe. Lubrication payments accompany requests for a person to do a job more rapidly or more efficiently; subornation is a request for officials to turn their heads, to not do their jobs, or to break the law.

Agent’s Fees. A third type of payment that can appear to be a bribe but may not be is an agent’s fee. When a businessperson is uncertain of a country’s rules and regulations, an agent may be hired to represent the company in that country. For example, an attorney may be hired to file an appeal for a variance in a building code on the basis that the attorney will do a more efficient and thorough job than someone unfamiliar with such procedures. While this practice is often a legal and useful procedure, if a part of that agent’s fee is used to pay bribes, the intermediary’s fees are being used unlawfully. Under U.S. law, an official who knows of an agent’s intention to bribe may risk prosecution and jail time. The Foreign Corrupt Practices Act (FCPA) prohibits U.S. businesses from paying bribes openly or using intermediaries as conduits for a bribe when the U.S. manager knows that part of the

⁵¹Yadong Luo, “Political Behavior, Social Responsibility, and Perceived Corruption: A Structural Perspective,” *Journal of International Business Studies* 37 (2006), pp. 747–66; Chuck C. Y. Kwok and Solomon Tadesse, “The MNC as an Agent of Change for Host-Country Institutions: FDI and Corruption,” *Journal of International Business Studies* 37 (2006), pp. 767–85.

intermediary's payment will be used as a bribe. Attorneys, agents, distributors, and so forth may function simply as conduits for illegal payments. The process is further complicated by legal codes that vary from country to country; what is illegal in one country may be winked at in another and be legal in a third.

The answer to the question of bribery is not an unqualified one. It is easy to generalize about the ethics of political payoffs and other types of payments; it is much more difficult to make the decision to withhold payment of money when the consequences of not making the payment may affect the company's ability to do business profitably or at all. With the variety of ethical standards and levels of morality that exist in different cultures, the dilemma of ethics and pragmatism that faces international business cannot be resolved until the anticorruption accords among the OECD, UN, and OAS members are fully implemented and multinational businesses refuse to pay extortion or offer bribes.

The Foreign Corrupt Practices Act, which prohibits American executives and firms from bribing officials of foreign governments, has had a positive effect. According to the latest Department of Commerce figures, since 1994, American businesses have bowed out of 294 major overseas commercial contracts valued at \$145 billion rather than paying bribes. This information corroborates the academic evidences cited previously. Even though there are numerous reports indicating a definite reduction in U.S. firms paying bribes, the lure of contracts is too strong for some companies. Lockheed Corporation made \$22 million in questionable foreign payments during the 1970s. More recently the company pled guilty to paying \$1.8 million in bribes to a member of the Egyptian national parliament in exchange for lobbying for three air cargo planes worth \$79 million to be sold to the military. Lockheed was caught and fined \$25 million, and cargo plane exports by the company were banned for three years. Lockheed's actions during the 1970s were a major influence on the passing of the FCPA. The company now maintains one of the most comprehensive ethics and legal training programs of any major corporation in the United States.

It would be naive to assume that laws and the resulting penalties alone will put an end to corruption. Change will come only from more ethically and socially responsible decisions by both buyers and sellers and by governments willing to take a stand.

Ethical and Socially Responsible Decisions

Behaving in an ethically and socially responsible way should be the hallmark of every businessperson's behavior, domestic or international. Most of us know innately the socially responsible or ethically correct response to questions about knowingly breaking the law, harming the environment, denying someone his or her rights, taking unfair advantage, or behaving in a manner that would bring bodily harm or damage. Meanwhile, the complex relationships among politics, corruption, and corporate social responsibility are only now beginning to receive attention on the part of scholars and practitioners.⁵² Unfortunately, the difficult issues are not the obvious and simple right-or-wrong ones, and differences in cultural values influence the judgment of managers.⁵³ In many countries, the international marketer faces the dilemma of responding to sundry situations where local law does not exist, where local practices appear to condone a certain behavior, or where a company willing to "do what is necessary" is favored over a company that refuses to engage in certain practices. In short, being socially responsible and ethically correct are not simple tasks for the international marketer.

⁵²Peter Rodriguez, Donald S. Siegel, Amy Hillman, and Lorraine Eden, "Three Lenses on the Multinational Enterprise: Politics, Corruption, and Corporate Social Responsibility," *Journal of International Business Studies* 37 (2006), pp. 733–46.

⁵³David A. Waldman, Mary Sully de Luque, Nathan Washburn, Robert J. House, Bolanle Adetoun, Angel Barrasa, Mariya Bobina, Muzaffer Bodur, Yi-jung Chen, Sukhendu Debbarma, Peter Dorfman, Rosemary R. Dzuwiche, Idil Evcimen, Pingping Fu, Mikhail Grachev, Roberto Gonzalez Duarte, Vipin Gupta, Deanne N. Den Hartog, Annebel H.B. de Hoogh, Jon Howell, Kuen-yung Jone, Hayat Kabasakal, Edvard Konrad, P. L. Koopman, Rainhart Lang, Cheng-chen Lin, Jun Liu, Boris Martinez, Almarie E. Munley, Nancy Papalexandris, T. K. Peng, Leonel Prieto, Narda Quigley, James Rajasekar, Francisco Gil Rodriguez, Johannes Steyrer, Betania Tanure, Henk Theiry, V. M. Thomas, Peter T. van den Berg, and Celeste P. M. Wilderom, "Cultural Leadership Predictors of Corporate Social Responsibility Values of Top Management: A GLOBE Study of 15 Countries," *Journal of International Business Studies* 37 (2006), pp. 823–37.

In normal business operations, difficulties arise in making decisions, establishing policies, and engaging in business operations in five broad areas: (1) employment practices and policies, (2) consumer protection, (3) environmental protection, (4) political payments and involvement in political affairs of the country, and (5) basic human rights and fundamental freedoms. In many countries, laws may help define the borders of minimum ethical or social responsibility, but the law is only the floor above which one's social and personal morality is tested. The statement that "there is no controlling legal authority" may mean that the behavior is not illegal, but it does not mean that the behavior is morally correct or ethical. Ethical business conduct should normally exist at a level well above the minimum required by law or the "controlling legal authority." In fact, laws are the markers of past behavior that society has deemed unethical or socially irresponsible.

Perhaps the best guides to good business ethics are the examples set by ethical business leaders. However, three ethical principles also provide a framework to help the marketer distinguish between right and wrong, determine what ought to be done, and properly justify his or her actions. Simply stated, they are as follows:

- **Utilitarian ethics.** Does the action optimize the "common good" or benefits of all constituencies? And who are the pertinent constituencies?
- **Rights of the parties.** Does the action respect the rights of the individuals involved?
- **Justice or fairness.** Does the action respect the canons of justice or fairness to all parties involved?

Answers to these questions can help the marketer ascertain the degree to which decisions are beneficial or harmful and right or wrong and whether the consequences of actions are ethical or socially responsible. Perhaps the best framework to work within is defined by asking: Is it legal? Is it right? Can it withstand disclosure to stockholders, to company officials, to the public?

Although the United States has clearly led the campaign against international bribery, European firms and institutions are apparently putting more effort and money into the promotion of what they are calling "corporate social responsibility." For example, the watchdog group CSR (Corporate Social Responsibility) Europe, in cooperation with INSEAD (the European Institute of Administrative Affairs) business school outside Paris, is studying the relationship between investment attractiveness and positive corporate behaviors on several dimensions. Their studies find a strong link between firms' social responsibility and European institutional investors' choices for equity investments.⁵⁴ All this is not to say that European firms do not still have their own corporate misbehaviors. However, we expect more efforts in the future to focus on measuring and monitoring corporate social responsibility around the world.

Finally, we mention three notable examples of corruption fighting, ranging across the levels of government, corporate, and individual initiatives. First, the government of Norway is investing its vast oil profits in only ethical companies; it recently withdrew funds from companies such as Walmart, Boeing, and Lockheed Martin, in line with its ethical criteria.⁵⁵ Second, Alan Boeckmann, CEO of the global construction company Fluor Corp., is fed up with the corruption in his own business. He, along with colleagues at competitor firms, has called for a program of outside auditors to determine the effectiveness firms' antibribery programs.⁵⁶ Third, in 2001, Alexandra Wrage founded Trace International, an Annapolis, Maryland, nonprofit that provides corruption reports about potential foreign clients and training for executives involved in business in difficult areas.⁵⁷ We laud all such efforts.

⁵⁴See <http://www.csreurope.org>.

⁵⁵Mark Landler, "Norway Tries to Do Well by Doing Good," *The New York Times*, May 4, 2007, pp. C1, C4.

⁵⁶Katherine Yung, "Fluor Chief in War on Bribery," *Dallas Morning News*, January 21, 2007, pp. 1D, 4D.

⁵⁷Eamon Javers, "Steering Clear of Foreign Snafus," *BusinessWeek*, November 12, 2007, p. 76. Also see <http://www.traceinternational.org>.

Culture's Influence on Strategic Thinking

Perhaps Lester Thurow provided the most articulate description of how culture influences managers' thinking about business strategy.⁵⁸ Others are now examining his ideas in even deeper detail.⁵⁹ Thurow distinguished between the British–American “individualistic” kind of capitalism and the “communitarian” form of capitalism in Japan and Germany. The business systems in the latter two countries are typified by cooperation among government, management, and labor, particularly in Japan. Contrarily, adversarial relationships among labor, management, and government are more the norm in the United Kingdom, and particularly in the United States. We see these cultural differences reflected in Hofstede's results—on the IDV scale, the United States is 91, the United Kingdom is 89, Germany is 67, and Japan is 46.

We also find evidence of these differences in a comparison of the performance of American, German, and Japanese firms.⁶⁰ In the less individualistic cultures, labor and management cooperate—in Germany labor is represented on corporate boards, and in Japan, management takes responsibility for the welfare of the labor force. Because the welfare of the workforce matters more to Japanese and German firms, their sales revenues are more stable over time. American-style layoffs are eschewed. The individualistic American approach to labor–management relations is adversarial—each side takes care of itself. So we see damaging strikes and huge layoffs that result in more volatile performance for American firms. Recent studies are uncovering stability as one of global investors' key criteria.⁶¹

Circa 2000, the American emphasis on competition looked like the best approach, and business practices around the world appeared to be converging on the American model. But it is important to recall that key word in Adam Smith's justification for competition—“frequently.” It's worth repeating here: “By pursuing his own interest he frequently promotes that of society. . . .” Smith wrote *frequently*, not *always*. A competitive, individualistic approach works well in the context of an economic boom. During the late 1990s, American firms dominated Japanese and European ones. The latter seemed stodgy, conservative, and slow in the then-current hot global

⁵⁸Lester Thurow, *Head to Head* (New York: William Morrow, 1992).

⁵⁹Gordon Redding, “The Thick Description and Comparison of Societal Systems of Capitalism,” *Journal of International Business Studies* 36, no. 2 (2005), pp. 123–55; Michael A. Witt and Gordon Redding, “Culture, Meaning, and Institutions: Executive Rationale in Germany and Japan,” *Journal of International Business Studies* 40 (2009), pp. 859–85.

⁶⁰Cathy Anterasian, John L. Graham, and R. Bruce Money, “Are U.S. Managers Superstitious about Market Share?” *Sloan Management Review* 37, no. 4 (1996), pp. 67–77.

⁶¹Vincenziu Covrig, Sie Tin Lau, and Lilian Ng, “Do Domestic and Foreign Fund Managers Have Similar Preferences for Stock Characteristics? A Cross-Country Analysis,” *Journal of International Business Studies* 37 (2006), pp. 407–29; Kate Linebaugh and Jeff Bennett, “Marchionne Upends Chrysler's Ways,” *The Wall Street Journal*, January 12, 2010, pp. B1, B2.

WORK WANTED: Chinese migrant workers advertise their skills while waiting for employers in the Sichuan city of Chengdu on a Monday in 2010. The government expects the total number of migrants looking for jobs this year to reach at least 25 million.





After two decades of stagnation in Japan, the social contract of lifetime employment is softening. This change is reflected in more frequent corporate layoffs, frustrating job searches, and “tent villages” in public places such as Ueno Park in Tokyo. But even at their worst point in history, Japanese jobless are just a trickle compared with the torrent of pink slips and homeless folks when the American economy heads south.

information economy. However, downturns in a competitive culture can be ugly things. For example, the instability and layoffs at Boeing during the commercial aircraft busts of the late 1990s and early 2000s have been damaging not only to employees and their local communities, but also to shareholders. And during the dramatic economic downturn in 2008–2009, Asian firms tended to eschew layoffs, compared with their American counterparts,⁶² and even rejected the U.S. as the benchmark for best management practices.⁶³ It should also be mentioned that Thurow and others writing in this area omitted a fourth kind of capitalism—that common in Chinese cultures.⁶⁴ Its distinguishing characteristics are a more entrepreneurial approach and an emphasis on *guanxi* (one’s network of personal connections)⁶⁵ as the coordinating principle among firms. This fourth kind of capitalism is also predicted by culture. Chinese cultures are high on PDI and low on IDV, and the strong reciprocity implied by the notion of *guanxi* fits the data well.

Synthesis: Relationship-Oriented vs. Information-Oriented Cultures

LOS

The differences between relationship-oriented and information-oriented cultures

With increasing frequency, studies note a strong relationship between Hall’s high-/low-context and Hofstede’s Individualism/Collective and Power Distance indices. For example, low-context American culture scores relatively low on power distance and high on individualism, whereas high-context Arab cultures score high on power distance and low on individualism. This result is not at all surprising, given that Hofstede⁶⁶ leans heavily on Hall’s ideas in developing and labeling the dimensions of culture revealed via his huge database. Indeed, the three dimensions—high/low context, IDV, and PDI—are correlated above the $r = 0.6$ level, suggesting all three dimensions are largely measuring the same thing.⁶⁷ Likewise, when we compare linguistic distance (to English) and Transparency International’s Corruption Perception Index to the other three, we see similar levels of correlations among all five dimensions. And while metrics for other dimensions of business culture do not yet exist, a pattern appears to be evident (see Exhibit 5.7).

The pattern displayed is not definitive, only suggestive. Not every culture fits every dimension of culture in a precise way. However, the synthesis is useful in many ways. Primarily, it gives us a simple yet logical way to think about many of the cultural differences described in Chapters 4 and 5. For example, American culture is low context, individualistic (IDV), low power distance (PDI), obviously close to English, monochronic time-oriented, linguistically direct, and foreground focused,⁶⁸ and it achieves efficiency through competition; therefore, it

⁶²Evan Ramsatd, “Koreans Take Pay Cuts to Stop Layoffs,” *The Wall Street Journal*, March 3, 2009, online.

⁶³“China Rethinks the American Way,” *BusinessWeek*, June 15, 2009, p. 32.

⁶⁴Don Y. Lee and Philip L. Dawes, “Guanxi, Trust, and Long-Term Orientation in Chinese Business Markets,” *Journal of International Marketing* 13, no. 2 (2005), pp. 28–56; Flora Gu, Kineta Hung, and David K. Tse, “When Does Guanxi Matter? Issues of Capitalization and Its Darkside,” *Journal of Marketing* 72, no. 4 (2008), pp. 12–28; Roy Y. J. Chua, Michael W. Morris, and Paul Ingram, “Guanxi vs. Networking: Distinctive Configurations of Affect- and Cognition-Based Trust in the Networks of Chinese vs. American Managers,” *Journal of International Business Studies* 40, no. 3 (2009), pp. 490–508.

⁶⁵Mark Lam and John L. Graham, *Doing Business in the New China, The World’s Most Dynamic Market* (New York: McGraw-Hill, 2007).

⁶⁶Hofstede, *Culture’s Consequences*.

⁶⁷This continuum has also been labeled “social context salience” by H. Rika Houston and John L. Graham, “Culture and Corruption in International Markets: Implications for Policy Makers and Managers,” *Consumption, Markets, and Culture* 4, no. 3 (2000), pp. 315–40.

⁶⁸Richard E. Nisbett, *The Geography of Thought* (New York: The Free Press, 2003).

Exhibit 5.7

Dimensions of Culture: A Synthesis

Information-Oriented (IO)	Relationship-Oriented (RO)
Low context	High context
Individualism	Collectivism
Low power distance	High power distance (including gender)
Bribery less common	Bribery more common*
Low distance from English	High distance from English
Linguistic directness	Linguistic indirectness
Monochronic time	Polychronic time
Internet	Face-to-face
Foreground	Background
Competition	Reduce transaction costs

*We note that Singapore, Hong Kong, Japan, and Chile do not fit all the rules here. Most would agree that all four are relationship-oriented cultures.

is categorized hereafter in this book as an *information-oriented culture*. Alternatively, Japanese culture is high context, collectivistic, high power distance, far from English, polychronic (in part), linguistically indirect, and background focused, and it achieves efficiency through reduction of transaction costs; therefore, it is properly categorized as a *relationship-oriented culture*. All these traits are so even though both the United States and Japan are high-income democracies. Both cultures do achieve efficiency but through different emphases. The American business system uses competition, whereas the Japanese depend more on reducing transaction costs.

The most managerially useful aspect of this synthesis of cultural differences is that it allows us to make predictions about unfamiliar cultures. Reference to the three metrics available gives us some clues about how consumers and/or business partners will behave and think. Hofstede has provided scores for 78 countries and regions, and we have included them in the appendix to this chapter. Find a country on his lists, and you have some information about that market and/or person. One might expect Trinidad to be an information-oriented culture and Russia a relationship-oriented culture, and so on. Moreover, measures of linguistic distance (any language can be used as the focal one, not just English) are available for every country and, indeed, every person. Thus, we would expect that someone who speaks Javanese as a first language to be relationship oriented.

In closing, we are quite encouraged by the publication of the important book *Culture Matters*.⁶⁹ We obviously agree with the sentiment of the title and hope that the book will help rekindle the interest in culture's pervasive influences that Max Weber and others initiated so long ago.

⁶⁹Lawrence I. Harrison and Samuel P. Huntington (eds.), *Culture Matters* (New York: Basic Books, 2000).

Summary

Management styles differ around the world. Some cultures appear to emphasize the importance of information and competition, while others focus more on relationships and transaction cost reductions. However, there are no simple answers, and the only safe generalization is that businesspersons working in another country must be sensitive to the business environment and must be willing to adapt when necessary. Unfortunately, to know when such adaptation is necessary is not always easy; in some instances adaptation is optional, whereas in others, it is actually undesirable. Understanding the culture you are entering is the only sound basis for planning.

Business behavior is derived in large part from the basic cultural environment in which the business operates and, as such, is subject to the extreme diversity encountered among various cultures and

subcultures. Environmental considerations significantly affect the attitudes, behavior, and outlook of foreign businesspeople. Motivational patterns of such businesspeople depend in part on their personal backgrounds, their business positions, their sources of authority, and their own personalities.

Varying motivational patterns inevitably affect methods of doing business in different countries. Marketers in some countries thrive on competition; in others, they do everything possible to eliminate it. The authoritarian, centralized decision-making orientation in some nations contrasts sharply with democratic decentralization in others. International variation characterizes contact level, ethical orientation, negotiation outlook, and nearly every part of doing business. The foreign marketer can take no aspect of business behavior for granted.

The new breed of international businessperson that has emerged in recent years appears to have a heightened sensitivity to cultural variations. Sensitivity, however, is not enough; the international trader must be constantly alert and prepared to adapt when necessary. One must

always realize that, no matter how long in a country, the outsider is not a local; in many countries, that person may always be treated as an outsider. Finally, one must avoid the critical mistake of assuming that knowledge of one culture will provide acceptability in another.

Key Terms

Cultural imperative
Cultural elective
Cultural exclusive

Silent languages
M-time
P-time

Bribery
Lubrication
Subornation

Principle of utilitarian ethics
Principle of justice
or fairness

Questions

1. Define the key terms listed above.
2. "More than tolerance of an alien culture is required; there is a need for affirmative acceptance of the concept 'different but equal.'" Elaborate.
3. "We should also bear in mind that in today's business-oriented world economy, the cultures themselves are being significantly affected by business activities and business practices." Comment.
4. "In dealing with foreign businesses, the marketer must be particularly aware of the varying objectives and aspirations of management." Explain.
5. Suggest ways in which persons might prepare themselves to handle unique business customs that may be encountered in a trip abroad.
6. Business customs and national customs are closely interrelated. In which ways would one expect the two areas to coincide, and in which ways would they show differences? How could such areas of similarity and difference be identified?
7. Identify both local and foreign examples of cultural imperatives, electives, and exclusives. Be prepared to explain why each example fits into the category you have selected.
8. Contrast the authority roles of top management in different societies. How do the different views of authority affect marketing activities?
9. Do the same for aspirational patterns.
10. What effects on business customs might be anticipated from the recent rapid increases in the level of international business activity?
11. Interview some foreign students to determine the types of cultural shock they encountered when they first came to your country.
12. Differentiate between:
 - Private ownership and family ownership
 - Decentralized and committee decision making
13. In which ways does the size of a customer's business affect business behavior?
14. Compare three decision-making authority patterns in international business.
15. Explore the various ways in which business customs can affect the structure of competition.
16. Why is it important that the business executive be alert to the significance of differing management styles?
17. Suggest some cautions that an individual from a relationship-oriented culture should bear in mind when dealing with someone from an information-oriented culture.
18. Political payoffs are a problem. How would you react if you faced the prospect of paying a bribe? What if you knew that by not paying, you would not be able to complete a \$10 million contract?
19. Differentiate among the following:
 - bribery
 - extortion
 - lubrication
 - subornation
20. Distinguish between P-time and M-time.
21. Discuss how a P-time person reacts differently from an M-time person in keeping an appointment.
22. What is meant by "laws are the markers of past behavior that society has deemed unethical or socially irresponsible"?
23. What are the three ethical principles that provide a framework to help distinguish between right and wrong? Explain.
24. Visit Transparency International's Web site and check to see how the CPI Index for countries listed in Exhibits 5.4 and 5.5 have changed. After searching TI's databank, explain why the changes have occurred. The site is found at <http://www.transparency.org>.
25. Discuss the pros and cons of "there is no controlling legal authority" as a basis for ethical behavior.
26. "The *company.com* page is a company's front door and that doorway should be global in scope." Discuss. Visit several Web pages of major multinational companies and evaluate their "front door" to the global world.
27. Visit the Web sites of Shell and Nike and compare their statements on corporate values. What are the major issues each addresses? Do you think their statements are useful as guides to ethical and socially responsible decision making?
28. Go to your favorite Web reference source and access some recent news articles on Nike and alleged human rights violations. Access the Nike statement on corporate values and write a brief statement on the alleged violations and Nike's statement of corporate values.

Appendix: Index Scores for Countries and Regions

Country	Power Distance	Uncertainty Avoidance	Individualism/Collectivism	Masculinity/Femininity	Long-Term/Short-Term Orientation	Primary Language	Distance from English
Argentina	49	86	46	56		Spanish	3
Australia total	36	51	90	61	31	English	0
Aborigines	80	128	89	22	10	Australian	7
Austria	11	70	55	79	31	German	1
Bangladesh	80	60	20	55	40	Bengali	3
Belgium total	65	94	75	54	38	Dutch	1
Dutch speakers	61	97	78	43		Dutch	1
French speakers	67	93	72	60		French	3
Brazil	69	76	38	49	65	Portuguese	3
Bulgaria	70	85	30	40		Bulgarian	3
Canada total	39	48	80	52	23	English	0
French speakers	54	60	73	45	30	French	3
Chile	63	86	23	28		Spanish	3
China	80	30	20	66	118	Mandarin	6
Colombia	67	80	13	64		Spanish	3
Costa Rica	35	86	15	21		Spanish	3
Czech Republic	57	74	58	57	13	Czech	3
Denmark	18	23	74	16	46	Danish	1
Ecuador	78	67	8	63		Spanish	3
Estonia	40	60	60	30		Estonian	4
Finland	33	59	63	26	41	Finnish	4
France	68	86	71	43	39	French	3
Germany	35	65	67	66	31	German	1
Great Britain	35	35	89	66	25	English	0
Greece	60	112	35	57		Greek	3
Guatemala	95	101	6	37		Spanish	3
Hong Kong	68	29	25	57	96	Cantonese	6
Hungary	46	82	80	88	50	Hungarian	4
India	77	40	48	56	61	Dravidian	3
Indonesia	78	48	14	46		Bahasa	7
Iran	58	59	41	43		Farsi	3
Ireland	28	35	70	68	43	English	0
Israel	13	81	54	47		Hebrew	5
Italy	50	75	76	70	34	Italian	3
Jamaica	45	13	39	68		English	0
Japan	54	92	46	95	80	Japanese	4
Korea (South)	60	85	18	39	75	Korean	4
Luxembourg	40	70	60	50		Luxembourgish	1
Malaysia	104	36	26	50		Malay	7

Malta	56	96	59	47		Maltese	5
Mexico	81	82	30	69		Spanish	3
Morocco	70	68	46	53		Arabic	5
Netherlands	38	53	80	14	44	Dutch	1
New Zealand	22	49	79	58	30	English	0
Norway	31	50	69	8	44	Norwegian	1
Pakistan	55	70	14	50	0	Urdu	3
Panama	95	86	11	44		Spanish	3
Peru	64	87	16	42		Spanish	3
Philippines	94	44	32	64	19	Tagalog	7
Poland	68	93	60	64	32	Polish	3
Portugal	63	104	27	31	30	Portuguese	3
Romania	90	90	30	42		Romanian	3
Russia	93	95	39	36		Russian	3
Salvador	66	94	19	40		Spanish	3
Singapore	74	8	20	48	48	Mandarin	6
Slovakia	104	51	52	110	38	Slovak	3
South Africa	49	49	65	63		Afrikaans	1
Spain	57	86	51	42	19	Spanish	3
Surinam	85	92	47	37		Dutch	1
Sweden	31	29	71	5	33	Swedish	1
Switzerland total	34	58	68	70	40	German	1
German speakers	26	56	69	72		German	1
French speakers	70	70	64	58		French	3
Taiwan	58	69	17	45	87	Taiwanese	6
Thailand	64	64	20	34	56	Thai	7
Trinidad	47	55	16	58		English	0
Turkey	66	85	37	45		Turkish	4
United States	40	46	91	62	29	English	0
Uruguay	61	100	36	38		Spanish	3
Venezuela	81	76	12	73		Spanish	3
Vietnam	70	30	20	40	80	Vietnamese	7
Yugoslavia total	76	88	27	21		Serbo-Croatian	3
Croatia (Zagreb)	73	80	33	40		Serbo-Croatian	3
Serbia (Beograd)	86	92	25	43		Serbo-Croatian	3
Slovenia (Ljubljana)	71	88	27	19		Slovene	3
Regions							
Arab countries	80	68	38	53		Arabic	5
East Africa	64	52	27	41	25		8
West Africa	77	54	20	46	16		8

Source: Geert Hofstede, *Culture's Consequences*, 2nd ed. (Thousand Oaks, CA: Sage, 2001).

Chapter 6



The Political Environment:

A CRITICAL CONCERN

CHAPTER OUTLINE

Global Perspective: World Trade Goes Bananas

The Sovereignty of Nations

Stability of Government Policies

- Forms of Government
- Political Parties
- Nationalism
- Targeted Fear and/or Animosity
- Trade Disputes

Political Risks of Global Business

- Confiscation, Expropriation, and Domestication
- Economic Risks
- Political Sanctions
- Political and Social Activists and Nongovernmental Organizations
- Violence, Terrorism, and War
- Cyberterrorism and Cybercrime

Assessing Political Vulnerability

- Politically Sensitive Products and Issues
- Forecasting Political Risk

Lessening Political Vulnerability

- Joint Ventures
- Expanding the Investment Base
- Licensing
- Planned Domestication
- Political Bargaining
- Political Payoffs

Government Encouragement

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 6:

- LO1** What the sovereignty of nations means and how it can affect the stability of government policies
- LO2** How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries
- LO3** The political risks of global business and the factors that affect stability
- LO4** The importance of the political system to international marketing and its effect on foreign investments
- LO5** The impact of political and social activists, violence, and terrorism on international business
- LO6** How to assess and reduce the effect of political vulnerability
- LO7** How and why governments encourage foreign investment

Global Perspective

WORLD TRADE GOES BANANAS

Rather than bruising Chiquita Bananas, the wrath of politics instead hammered Prosciutto di Parma ham from Italy, handbags from France, and bath oils and soaps from Germany. These and a host of other imported products from Europe were all slapped with a 100 percent import tariff as retaliation by the U.S. government against EU banana-import rules that favored Caribbean bananas over Latin American bananas. Keep in mind that no bananas are exported from the United States, yet the United States has been engaged in a trade war over the past seven years that has cost numerous small businesses on both sides of the Atlantic millions of dollars. But how can this be, you ask? Politics, that's how!

One small business, Reha Enterprises, for example, sells bath oil, soaps, and other supplies imported from Germany. The tariff on its most popular product, an herbal foam bath, was raised from 5 percent to 100 percent. The customs bill for six months spiraled to \$37,783 from just \$1,851—a 1,941 percent tax increase. For a small business whose gross sales are less than \$1 million annually, it was crippling. When Reha heard of the impending “banana war,” he called everyone—his congressperson, his senator, the United States Trade Representative (USTR). When he described his plight to the USTR, an official there expressed amazement. “They were surprised I was still importing,” because they thought the tariff would cut off the industry entirely. That was their intention, which of course would have meant killing Reha Enterprises as well.

In effect, he was told it was his fault that he got caught up in the trade war. He should have attended the hearings in Washington, just like Gillette and Mattel, and maybe his products would have been dropped from the targeted list, just as theirs were. Scores of European products, from clothing to stoves to glass Christmas ornaments, dolls, and ballpoint pens, that were originally targeted for the retaliatory tariffs escaped the tariff. Aggressive lobbying by large corporations, trade groups, and members of Congress got most of the threatened imported products off the list. The USTR had published a list of the targeted imports in the Federal Register, inviting affected companies to testify. Unfortunately, the Federal Register was not on Reha's reading list.

In that case, he was told, he should have hired a lobbyist in Washington to keep him briefed. Good advice—but it doesn't make much sense to a company that grosses less than \$1 million a year. Other advice received from an

official of the USTR included the off-the-record suggestion that he might want to change the customs number on the invoice so it would appear that he was importing goods not subject to the tariff, a decision that could, if he were caught, result in a hefty fine or jail. Smaller businesses in Europe faced similar problems as their export business dried up because of the tariffs.

How did this banana war start? The European Union imposed a quota and tariffs that favored imports from former colonies in the Caribbean and Africa, distributed by European firms, over Latin American bananas distributed by U.S. firms. Chiquita Brands International and Dole Food Company, contending that the EU's “illegal trade barriers” were costing \$520 million annually in lost sales to Europe, asked the U.S. government for help. The government agreed that unfair trade barriers were damaging their business, and 100 percent tariffs on selected European imports were levied. Coincidentally, Chiquita Brands' annual political campaign contributions increased from barely over \$40,000 in 1991 to \$1.3 million in 1998.

A settlement was finally reached that involved high tariffs on Latin America bananas and quotas (with no tariffs) on bananas from Europe's former colonies. But the bruising over bananas continued, and not in a straightforward way! In 2007 the issue shifted to banana bending. That is, bananas from Latin America tend to be long and straight, while those from the non-tariff countries are short and bent. Because the latter are not preferred by the shippers or retailers (the bendier ones don't stack as neatly and economically), the bananas from the former colonies were still not preferred. And new regulations were adopted by the European Commission that mandated that bananas must be free from “abnormal curvature of the fingers.” So the bendy banana producers threatened to renege on the whole agreement. Circa 2007 everyone involved found this prospect very unappealing.

The tale does have a happy ending though. In 2009, after marathon meetings among all parties in Geneva, the 16-year banana split was finally healed: The European Union cut import tariffs on bananas grown in Latin America by U.S. firms.

Sources: “U.S. Sets Import Tariffs in Latest Salvo in Ongoing Battle over Banana Trade,” *Minneapolis Star Tribune*, March 4, 1999; Timothy Dove, “Hit by a \$200,000 Bill from the Blue,” *Time*, February 7, 2000, p. 54; Jeremy Smith, “EU Heading for Trade Crunch over Bananas,” *Reuters*, November 14, 2007.

No company, domestic or international, large or small, can conduct business without considering the influence of the political environment within which it will operate. One of the most undeniable and crucial realities of international business is that both host and home governments are integral partners. A government reacts to its environment by initiating and pursuing policies deemed necessary to solve the problems created by its particular circumstances. Reflected in its policies and attitudes toward business are a government's ideas of how best to promote the national interest, considering its own resources and political philosophy. A government controls and restricts a company's activities by encouraging and offering support or by discouraging and banning or restricting its activities—depending on the pleasure of the government.

International law recognizes the sovereign right of a nation to grant or withhold permission to do business within its political boundaries and to control where its citizens conduct business. Thus, the political environment of countries is a critical concern for the international marketer. This chapter examines some of the more salient political considerations in assessing global markets.

The Sovereignty of Nations

LO1

What the sovereignty of nations means and how it can affect the stability of government policies

In the context of international law, a *sovereign state* is independent and free from all external control; enjoys full legal equality with other states; governs its own territory; selects its own political, economic, and social systems; and has the power to enter into agreements with other nations. **Sovereignty** refers to both the powers exercised by a state in relation to other countries and the supreme powers exercised over its own members.¹ A state sets requirements for citizenship, defines geographical boundaries, and controls trade and the movement of people and goods across its borders. Additionally, a citizen is subject to the state's laws even when beyond national borders. It is with the extension of national laws beyond a country's borders that much of the conflict in international business arises. This reasoning is especially true when another country considers its own sovereignty to be compromised.

Nations can and do abridge specific aspects of their sovereign rights to coexist with other nations. The European Union, North American Free Trade Agreement (NAFTA), North Atlantic Treaty Organization (NATO), and World Trade Organization (WTO)² represent examples of nations voluntarily agreeing to give up some of their sovereign rights

¹For those interested in learning more about the concept of sovereignty, see Stephen D. Krasner (ed.), *Problematic Sovereignty* (New York: Columbia University Press, 2001).

²"Global Trade Talks Founder on Farm-Subsidy Issues," *The Wall Street Journal Online*, June 21, 2007.

THUMBS-UP: U.S. President Barack Obama, Italian Prime Minister Silvio Berlusconi, and Russian President Dmitry Medvedev mugged for the camera during a group photo after an April G-20 summit in London aimed at fixing the crises-wracked global economy. All leaders of the G20 nations signed a joint communiqué promising to "resist protectionism." Their April 2009 agreement marked the nadir of the world trade bust (a decline of more than 12 percent) that marked the year. The celebration symbolizes their successful dodging of the Smoot-Hawley tariff bullet that dramatically exacerbated the Great Depression of the 1930s.



to participate with member nations for a common, mutually beneficial goal. The leaders of the G20 nations ceded some sovereignty in their hugely important April 2009 agreement to “reject protectionism” at the nadir of the 2009 crash, when world trade had declined more than 12 percent. The bad memories of the Smoot-Hawley disaster of the Great Depression apparently made the decision one to celebrate, as the accompanying picture shows.

As indicated in Exhibit 1.4 (page 24), the United States’s involvement in international political affiliations is surprisingly low (i.e., it is largely sovereign). Indeed, when it comes to participation in international treaty regimes, the United States is ranked near the bottom of the 72 countries included in *Foreign Policy* magazine rankings, tied with Iran and Israel (at 68th) and ahead of only Hong Kong and Taiwan.³ Most notably, the Kyoto Protocol on global climate change and the International Criminal Court were rejected by the Bush administration, along with lesser known treaties such as the Basel Convention on the Control of Transboundary Movement of Hazardous Wastes. This apparent lack of international political engagement is particularly hard to understand given the wide acceptance that such agreements lead to peace and mutual understanding.⁴ Fortunately, President Obama has now set a more positive tone for international cooperation and agreements, one welcomed by the rest of the world.

Countries that agree to relinquish some of their sovereignty often are subject to a nagging fear that too much has been given away. For example, the WTO is considered by some as the biggest threat so far to national sovereignty. Adherence to the WTO inevitably means the loss of some degree of national sovereignty, because the member nations have pledged to abide by international covenants and arbitration procedures that can override national laws and have far-reaching ramifications for citizens. Sovereignty was one of the issues at the heart of the spat between the United States and the European Union over Europe’s refusal to lower tariffs and quotas on bananas (see the Global Perspective). And critics of the free trade agreements with both South Korea and Peru claim America’s sacrifice of sovereignty is too great.

Foreign investment can also be perceived as a threat to sovereignty and thus become a rallying cry by opposing factions. The Chinese national oil company’s proposed purchase of Unocal was opposed on such grounds. As American banks struggled to maintain liquidity during the 2008 home mortgage debacle, huge investments from overseas were solicited and received from one class of foreign investors that U.S. politicians particularly disfavored—the so-called “sovereign wealth funds” that entail vast pools of money controlled by foreign governments from China and the Middle East.⁵ At the same time, members of the U.S. Congress have demanded that China raise the value of its currency, but that would make it even easier for Chinese firms and their government to buy American assets.⁶ Of course, the Chinese resist the latter political pressure as a threat to their sovereignty. Ironically, Americans have criticized Mexico for hindering similar sorts of American investments. That is, Mexico badly needs privately financed electricity generating plants to meet electrical power demands and to upgrade the country’s overloaded transmission network. The Mexican government entered into an agreement with a Belgian company to build a power plant that would bypass the state electricity monopoly and sell electricity directly to large Mexican manufacturers. But the Mexican constitution limits private ownership of utilities, and any exception requires a two-thirds vote of the legislature. The Institutional Revolutionary Party (PRI) saw the attempt to open Mexico’s protected energy industry as an assault on Mexican sovereignty and blocked the agreement. What all this conflict highlights is that national sovereignty is a critical issue in assessing the environment in which a firm operates.

³“Measuring Globalization,” *Foreign Policy*, November/December 2007, pp. 68–77.

⁴John L. Graham, “The Big Secret of World Peace,” *Journal of Commerce*, February 13, 1995, OPED page; John L. Graham, “Trade Brings Peace,” in J. Runzo and N. Martin (eds.), *War and Reconciliation* (Cambridge: Cambridge University Press, 2011); Thomas L. Friedman, *The World Is Flat* (New York: Farrar, Straus, and Giroux, 2005).

⁵Peter S. Goodman and Louise Story, “Overseas Investors Buying U.S. Holdings at Record Pace,” *The New York Times*, January 20, 2008, pp. 1, 14.

⁶“Lost in Translations,” *The Economist*, January 19, 2008, pp. 73–75.

Stability of Government Policies The ideal political climate for a multinational firm is a stable, friendly government. Unfortunately, governments are not always stable and friendly, nor do stable, friendly governments always remain so. Radical shifts in government philosophy when an opposing political party ascends to power,⁷ pressure from nationalist and self-interest groups, weakened economic conditions, bias against foreign investment, or conflicts among governments are all issues that can affect the stability of a government. Because foreign businesses are judged by standards as variable as there are nations, the stability and friendliness of the government in each country must be assessed as an ongoing business practice.

At the top of the list of political issues concerning foreign businesses is the stability or instability of prevailing government policies. Governments might change⁸ or new political parties might be elected, but the concern of the multinational corporation is the continuity of the set of rules or codes of behavior and the continuation of the rule of law—regardless of which government is in power. A change in government, whether by election or coup, does not always mean a change in the level of political risk. In Italy, for example, more than 50 different governments have been formed since the end of World War II. While the political turmoil in Italy continues, business goes on as usual. In contrast, India has had as many different governments since 1945 as Italy, with several in the past few years favorable to foreign investment and open markets. However, much government policy remains hostile to foreign investment. Senior civil servants who are not directly accountable to the electorate but who remain in place despite the change of the elected government continue with former policies. Even after elections of parties favoring economic reform, the bureaucracy continues to be staffed by old-style central planners in India.

Conversely, radical changes in policies toward foreign business can occur in the most stable governments. The same political party, the Institutional Revolutionary Party (PRI), controlled Mexico from 1929 to 2000. During that period, the political risk for foreign investors ranged from expropriation of foreign investments to Mexico's membership in NAFTA and an open door for foreign investment and trade. In recent years, the PRI created a stable political environment for foreign investment, in contrast to earlier expropriations and harassment. Beginning with the elections in 2000, however, a new era in Mexican politics emerged as a result of profound changes within the PRI brought about by then-president Ernesto Zedillo. Since 1929, the Mexican president had selected his successor, who, without effective challenge, was always elected. President Zedillo changed the process by refusing to nominate a candidate; instead he let the nomination be decided by an open primary—the first in seven decades. From a field of four candidates, the PRI selected Labastida Ochoa, and the opposing party PAN⁹ selected Vicente Fox who, though considered a long shot, won the presidency. Although the PAN had gained strength for several years in the congress and among state governments, its presidential candidates never had a winning chance until the 2000 election.

Some African countries are unstable, with seemingly unending civil wars, boundary disputes, and oppressive military regimes. Even relatively stable and prosperous Kenya fell victim to political violence in 2008 that greatly disrupted growth in commerce in the entire region.¹⁰ Sierra Leone has had three changes in government in five years; the most recent coup d'état ended the country's brief experiment with democracy. Shortly after the coup, a civil war erupted, and UN peacekeeping forces have had to maintain the peace. Central Africa, where ethnic wars have embroiled seven nations, is one of the most politically unstable regions in the world. Thus, Africa is trapped in a vicious cycle: For its nations to prosper, they need foreign investment. But investment is leery of unstable nations, which

⁷Sabrina Tavernise, "Debate Intensifies in Turkey over Head Scarf Ban," *The New York Times*, January 19, 2008, p. A5.

⁸Sebastian Moffett, "Japanese Prime Minister Steps Down after Less than One Year in Office," *The Wall Street Journal Online*, September 12, 2007.

⁹PAN stands for Partido Accion Nacional. PAN and PRI are the largest of eight political parties in Mexico.

¹⁰Michela Wrong, "Kenya's Turmoil Cuts off Its Neighbors," *Los Angeles Times*, January 14, 2008, p. C4.

CHAOTIC CONDITIONS: On the first Sunday after the quake, at 9:00 a.m., the streets of downtown Port-au-Prince are filled with people scavenging. Onlookers add to the crowd.



is the status of much of Africa.¹¹ A recent World Bank study showed that the 47 nations of sub-Saharan Africa were attracting less than \$2 billion annually in direct foreign investment—about one-tenth of what a developing nation such as Mexico attracts.

If there is potential for profit and if permitted to operate within a country, multinational companies can function under any type of government as long as there is some long-run predictability and stability. PepsiCo, for example, operated profitably in the Soviet Union when it had one of the world's most extreme political systems. Years before the disintegration of the USSR's Communist Party, PepsiCo established a very profitable countertrade business with the USSR. The company exchanged Pepsi syrup for Russian vodka, thus avoiding the legally complicated financial transactions of the time.¹²

Socioeconomic and political environments invariably change, as they have in the Soviet Union and Mexico. There are five main political causes of instability in international markets: (1) some forms of government seem to be inherently unstable, (2) changes in political parties during elections can have major effects on trade conditions, (3) nationalism, (4) animosity targeted toward specific countries, and (5) trade disputes themselves.

Forms of Government

LO2

How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries

Circa 500 BC, the ancient Greeks conceived of and criticized three fundamental forms of government: rule by one, rule by few, and rule by many. The common terms for these forms in use today are monarchy (or dictatorship), aristocracy (or oligarchy), and democracy. About the same time in history Cyrus the Great, monarch of Persia, declared that the purpose of government was to serve the people, not vice versa. Cyrus's notion is embedded in the constitutions of most modern nations. Following the collapse of colonialism beginning with World War II and communism circa 1990, the world seemed to have agreed that free-enterprise democracy was the best solution to all the criticisms of government since the time of Aristotle, Cyrus, and the others.¹³

Thus, of the more than 200 sovereign states on the planet, almost all have at least nominally representative governments with universal suffrage for those 18 years and over. In

¹¹Visit <http://www.cia.com> for abstracts of the Economist Intelligence Unit's country reports of current political and economic data. Some information on this site is available for a fee only, but other sources are free.

¹²Visit the Pepsi Web site in Russia for a history of Pepsi in Russia, Pepsi advertising in Russia, and other information: <http://www.pepsi.ru>.

¹³Francis Fukuyama, *The End of History and the Last Man* (New York: The Free Press, 1992).

Exhibit 6.1

A Sampling of Government Types

Source: <http://www.cia.gov/cia/publications/factbook/>, 2008.

Country	Government Type
Afghanistan	Islamic republic
Belarus	Republic in name, though in fact a dictatorship
Bosnia and Herzegovina	Emerging federal democratic republic
Burma (Myanmar)	Military junta
Canada	Confederation with parliamentary democracy
China	Communist state
Congo, Democratic	Dictatorship, presumably undergoing a transition to representative government
Cuba	Communist state
Iran	Theocratic republic
Libya	Jamahiriyah (a state of the masses) in theory, governed by the populace through local councils; in fact a military dictatorship
North Korea	Communist state, one-man dictatorship
Saudi Arabia	Monarchy
Somalia	No permanent national government; transitional, parliamentary federal government
Sudan	Authoritarian regime—ruling military junta
United Kingdom	Constitutional monarchy
United States	Constitutional federal republic
Uzbekistan	Republic; authoritarian presidential rule, with little power outside the executive branch
Vietnam	Communist state

about 10 percent of the nations voting is required; in the rest it is voluntary. A few countries have some unusual rules for suffrage: In Bolivia, you can vote at 18 if you are married and at 21 if single; in Peru, police and military personnel cannot vote; in Croatia, you can vote at 16 if employed; in Lebanon, only women with at least an elementary education can vote (though all men can vote); and Saudi Arabia precludes women from voting. The last appears to be the only state still completely in the dark ages with regards to suffrage. Exhibit 6.1 lists a sampling of the countries that are currently taking a different approach to the conventional wisdom of representational democracy. More troubling though is the apparent backsliding of some countries toward autocracy and away from democracy, such as Nigeria, Kenya, Bangladesh, Venezuela, Georgia, and Kyrgyzstan.¹⁴ Haiti's government has been literally crushed by the great earthquake of 2010.¹⁵ Indeed, according to the Heritage Foundation, the United States experienced its biggest drop in "economic freedom" because of the controlling impact of the economic stimuli of 2008–2009.¹⁶ Meanwhile, we can all witness perhaps the world's greatest experiment in political and economic change: the race between Russian "big-bang" reform and Chinese gradualism as communism is left further behind in both countries.¹⁷

The Central Intelligence Agency¹⁸ claims to have taken a look beyond the facade of constitutions in their descriptors. For example, Iran (modern Persia) is defined as a "theocratic republic," recognizing that the constitution codifies Islamic principles of government as interpreted from the Koran. Although political parties are allowed to function, they hold little political power. Instead, the Supreme Leader controls all-important decisions of the government, including who is allowed to run for president in Iran.

¹⁴"Crying for Freedom," *The Economist*, January 16, 2010, pp. 58–60.

¹⁵Marci Lacey, "Haiti's Icon of Power, Now Palace for Ghosts," *The New York Times*, January 23, 2010.

¹⁶Terry Miller, "The U.S. Isn't as Free as It Used to Be," *The Wall Street Journal*, January 20, 2010, p. A17.

¹⁷Brian Bremmer, "The Dragon's Way or the Tiger's?" *BusinessWeek*, November 20, 2006, pp. 55–62; N. Mark Lam and John L. Graham, *Doing Business in China Now, The World's Most Dynamic Market* (New York: McGraw-Hill, 2007).

¹⁸<http://www.cia.gov/cia/publications/factbook/>, 2010.

EYES ON THE POLLS: Portraits of Ayatollah Ali Khamenei (the Supreme Leader) and the late Ayatollah Ruhollah Khomeini loom over Iranian women lined up to vote at a mosque south of Tehran. As mandated by law, women and men waited in separate lines at polling places with more than one ballot box. The current government also specifies the public dress of the women pictured.



Political Parties

For most countries around the world, it is particularly important for the marketer to know the philosophies of all major political parties within a country, because any one of them might become dominant and alter prevailing attitudes and the overall business climate.¹⁹ In countries where two strong political parties typically succeed one another in control of the government, it is important to know the direction each party is likely to take.²⁰ In Great Britain, for example, the Labour Party traditionally has been more restrictive regarding foreign trade than the Conservative Party. The Labour Party, when in control, has limited imports, whereas the Conservative Party has tended to liberalize foreign trade when it is in power. A foreign firm in Britain can expect to seesaw between the liberal trade policies of the Conservatives and the restrictive ones of Labour. Of course, in the United States, the Democratic Congress was reluctant to ratify free trade pacts negotiated by George Bush's Republican administration in the White House.²¹

An astute international marketer must understand all aspects of the political landscape to be properly informed about the political environment. Unpredictable and drastic shifts in government policies deter investments, whatever the cause of the shift. In short, a current assessment of political philosophy and attitudes within a country is important in gauging the stability and attractiveness of a government in terms of market potential.

Nationalism

Economic and cultural nationalism, which exists to some degree within all countries, is another factor important in assessing business climate. **Nationalism** can best be described as an intense feeling of national pride and unity, an awakening of a nation's people to pride in their country. This pride can take an anti-foreign business bias, where minor harassment and controls of foreign investment are supported, if not applauded.²² Economic nationalism has as one of its central aims the preservation of national economic autonomy, in that residents identify their interests with the preservation of the sovereignty of the state in

¹⁹Paul M. Vaaler, Burkhard N. Schrage, and Steven A. Block, "Counting the Investor Vote: Political Business Cycle Effects on Sovereign Bond Spreads in Developing Countries," *Journal of International Business Studies* 36, no. 1 (2005), pp. 62–88.

²⁰Joy C. Shaw, "Taiwan's KMT Wins Big in Legislative Elections," *The Wall Street Journal Online*, January 12, 2008.

²¹Steven R. Weisman, "Bush in Accord with Democrats on Trade Pacts," *The New York Times*, May 11, 2007, pp. 1, C7.

²²David Pierson, "China Pursues Oil on U.S. Turf," *Los Angeles Times*, October 22, 2009, pp. B1, B4.

CROSSING BORDERS 6.1

Coke's Back, and It Still Has the Secret

For almost 100 years, the formula for making Coca-Cola has been a closely guarded secret. Then the government of India ordered Coca-Cola to disclose it or cease operations in that country. A secret ingredient called 7-X supposedly gives Coke its distinctive flavor. The government's minister for industry told the Indian parliament that Coca-Cola's Indian branch would have to transfer 60 percent of its equity shares to Indians and hand over its know-how by April 1978 or shut down.

Indian sales accounted for less than 1 percent of Coca-Cola's worldwide sales, but the potential market in India, a country of 800 million, was tremendous. The government refused to let the branch import the necessary ingredients, and Coca-Cola—whose products were once as abundant as the bottled drinking water sold in almost every Indian town of more than 50,000—packed up its bags and left the country. The minister for industry said that Coca-Cola's activities in India "furnish a classic example of how multinational corporations operating in a low-priority, high-profit area in a developing country attain run-away growth and . . . trifle with the weaker indigenous industry."

Sixteen years later, India's attitudes toward foreign investment changed, and Coca-Cola reentered the market without having to divulge its formula. During

Coke's 16-year exile, however, Pepsi Cola came to India and captured a 26 percent market share. Not to worry; there is plenty of growth potential for both, considering that India's per capita consumption is just 3 eight-ounce bottles a year, versus about 12 for Pakistan and over 500 in Mexico. To forestall further political vulnerability, Coke sold 49 percent of its Indian bottler subsidiary to institutional investors and employees. The company hopes this move will put to rest an issue that concerned the Indian government, which wanted Indians to own part of Coke's local operation—in other words, Coke took steps to domesticate its operations.

But India is still a tough market. Most recently, a water quality dispute, domestic price competition, a pesticide scare, and cool weather have hurt Coke's sales in India, despite a general global rebound in revenues and profits. And, after Coke's failed first entry into the Indian energy drink market with a new brand called "Shocker," let's hope it doesn't get burned with its second try, "Burn!"

Sources: Craig Simons, "India Coke Plant Still Closed as Water Woes Argued," *Atlanta Journal-Constitution*, December 16, 2007, p. F1; "Coke India Chief Bullish on India Becoming Top 5 Global Market," *Asia Pulse*, January 15, 2008; "Coca-Cola: A Second Shot at Energy Drinks," *MarketWatch: Global Round-Up*, January 2010, p. 39.

which they reside. In other words, national interest and security are more important than international relations.

Feelings of nationalism are manifested in a variety of ways, including a call to "buy our country's products only" (e.g., "Buy American"), restrictions on imports, restrictive tariffs, and other barriers to trade. They may also lead to control over foreign investment, often regarded with suspicion, which then becomes the object of intensive scrutiny and control. Generally speaking, the more a country feels threatened by some outside force or the domestic economy declines, the more nationalistic it becomes in protecting itself against intrusions.

During the period after World War II, when many new countries were founded and many others were seeking economic independence, manifestations of militant nationalism were rampant. Expropriation of foreign companies, restrictive investment policies, and nationalization of industries were common practices in some parts of the world. During this period, India imposed such restrictive practices on foreign investments that companies such as Coca-Cola, IBM, and many others chose to leave rather than face the uncertainty of a hostile economic climate. In many Latin American countries, similar attitudes prevailed and led to expropriations and even confiscation of foreign investments.

By the late 1980s, militant nationalism had subsided; today, the foreign investor, once feared as a dominant tyrant that threatened economic development, is often sought as a source of needed capital investment.²³ Nationalism comes and goes as conditions and

²³Muammar el Qaddafi, the leader of Libya, has changed his approach to international relations from supporting terrorism to supporting trade, for example. See "Rehabilitating Libya," *The New York Times* (editorial), January 8, 2007, p. 14.

attitudes change, and foreign companies welcomed today may be harassed tomorrow and vice versa.

Although militant economic nationalism has subsided, nationalistic feelings can be found even in the most economically prosperous countries. When U.S. negotiators pushed Japan to import more rice to help balance the trade deficit between the two countries, nationalistic feelings rose to a new high. Deeply rooted Japanese notions of self-sufficiency, self-respect, and concern for the welfare of Japanese farmers caused Japan to resist any change for several years. It was only after a shortfall in the Japanese rice harvests that restrictions on rice imports were temporarily eased. Even then, all imported foreign rice had to be mixed with Japanese rice before it could be sold.

Targeted Fear and/or Animosity

It is important for marketers not to confuse nationalism, whose animosity is directed generally toward *all* foreign countries, with a widespread fear or animosity directed at a particular country. This confusion was a mistake made by Toyota in the United States in the late 1980s and early 1990s. Sales of Japanese cars were declining in the States, and an advertising campaign was designed and delivered that assumed the problem was American nationalism. However, nationalism was clearly not the problem, because sales of German cars were not experiencing the same kinds of declines. The properly defined problem was “Americans’ *fear* of Japan.” Indeed, at the time, Americans considered the economic threat from Japan greater than the military threat from the Soviet Union. So when Toyota spent millions on an advertising campaign showing Camrys being made by Americans in a Toyota plant in Kentucky, it may well have exacerbated the fear that the Japanese were “colonizing” the United States.

Best-selling titles in France, including *The World Is Not Merchandise, Who Is Killing France? The American Strategy*, and *No Thanks Uncle Sam*, epitomize its animosity toward the United States. Although such attitudes may seem odd in a country that devours U.S. movies, eats U.S. fast foods, views U.S. soap operas, and shops at U.S. Walmart stores, national animosity—whatever the cause—is a critical part of the political environment. The United States is not immune to the same kinds of directed negativism either. The rift between France and the United States over the Iraq–U.S. war led to hard feelings on both sides and an American backlash against French wine, French cheese, and even products Americans thought were French. French’s mustard felt compelled to issue a press release stating that it is an “American company founded by an American named ‘French.’” Thus, it is quite clear that no nation-state, however secure, will tolerate penetration by a foreign company into its market and economy if it perceives a social, cultural, economic, or political threat to its well-being.

Trade Disputes

Finally, narrow trade disputes themselves can roil broader international markets. At the beginning of the chapter we discussed our favorite example—bananas. Among several hot issues circa 2010 were undervalued Chinese currency, the ban on beef imports into Japan, Chinese subsidies in apparent violation of WTO rules, farm subsidies in developed countries, and the long-simmering AIRBUS–Boeing battle over subsidies. Any of these disputes might boil over and affect other aspects of international trade, but at least at this writing, cooler heads seem to be prevailing—along with the WTO dispute resolution processes.

Political Risks of Global Business

LO3

The political risks of global business and the factors that affect stability

Issues of sovereignty, differing political philosophies, and nationalism are manifest in a host of governmental actions that enhance the risks of global business. Risks can range from confiscation, the harshest, to many lesser but still significant government rules and regulations, such as exchange controls, import restrictions, and price controls that directly affect the performance of business activities. Although not always officially blessed initially, social or political activist groups can provoke governments into actions that prove harmful to business. Of all the political risks, the most costly are those actions that result in a transfer of equity from the company to the government, with or without adequate compensation.

Confiscation, Expropriation, and Domestication

LO4

The importance of the political system to international marketing and its effect on foreign investments

The most severe political risk is **confiscation**, that is, the seizing of a company's assets without payment. Two notable confiscations of U.S. property occurred when Fidel Castro became the leader in Cuba and later when the Shah of Iran was overthrown. Confiscation was most prevalent in the 1950s and 1960s when many underdeveloped countries saw confiscation, albeit ineffective, as a means of economic growth.

Less drastic, but still severe, is **expropriation**, where the government seizes an investment but makes some reimbursement for the assets. For example, in 2008 the Chavez regime in Venezuela expropriated Mexico's CEMEX operations, paying a negotiated price.²⁴ Often the expropriated investment is nationalized; that is, it becomes a government-run entity. A third type of risk is **domestication**, which occurs when host countries gradually cause the transfer of foreign investments to national control and ownership through a series of government decrees that mandate local ownership and greater national involvement in a company's management. The ultimate goal of domestication is to force foreign investors to share more of the ownership, management, and profits with nationals than was the case before domestication.

Rather than a quick answer to economic development, expropriation and nationalization have often led to nationalized businesses that were inefficient, technologically weak, and noncompetitive in world markets. Risks of confiscation and expropriation appear to have lessened over the last two decades (with exceptions in Latin America, particularly Venezuela),²⁵ because experience has shown that few of the desired benefits materialize after government takeover.²⁶ Today, countries often require prospective investors to agree to share ownership, use local content, enter into labor and management agreements, and share participation in export sales as a condition of entry; in effect, the company has to become domesticated as a condition for investment.

Countries now view foreign investment as a means of economic growth. As the world has become more economically interdependent, it has become obvious that much of the economic success of countries such as South Korea, Singapore, and Taiwan is tied to foreign investments. Nations throughout the world that only a few years ago restricted or forbade foreign investments are now courting foreign investors as a much needed source of capital and technology. Additionally, they have begun to privatize telecommunications, broadcasting, airlines, banks, railroads, and other nationally owned companies as a means of enhancing competition and attracting foreign capital.

The benefits of privatizing are many. In Mexico, for example, privatization of the national telephone company resulted in almost immediate benefits when the government received hundreds of millions of dollars of much needed capital from the sale and immediate investment in new telecommunications systems. A similar scenario has played out in Brazil, Argentina, India, and many eastern European countries. Ironically, many of the businesses that were expropriated and nationalized in earlier periods are now being privatized.

Economic Risks

Even though expropriation and confiscation are waning as risks of doing business abroad, international companies are still confronted with a variety of economic risks that can occur with little warning. Restraints on business activity may be imposed under the banner of national security to protect an infant industry, to conserve scarce foreign exchange, to raise revenue, or to retaliate against unfair trade practices, among a score of other real or imagined reasons. These economic risks are an important and recurring part of the political environment that few international companies can avoid.

Exchange Controls. Exchange controls stem from shortages of foreign exchange held by a country. When a nation faces shortages of foreign exchange and/or a substantial amount of capital is leaving the country, controls may be levied over all movements of capital or selectively against the most politically vulnerable companies to conserve the

²⁴Steven Bodzin, "Cemex Handing Plants to Chavez," *The Globe and Mail*, August 28, 2008, p. B5.

²⁵Simon Romero, "Chavez Takes over Foreign-Controlled Oil Projects in Venezuela," *The New York Times*, May 2, 2007, p. A3.

²⁶Marla Dickerson, "Woes Mount for Mexico's State Oil Titan," *Los Angeles Times*, January 2, 2008, pp. C1, C4.

Exhibit 6.2

How Complicated Things Can Get!

Sources: "Myanmar's Crumbling Kit," *Asiaweek*, March 2, 2001, p. 8; Michael Vatikiotis, "Neighbors Lean on Myanmar," *International Herald Tribune*, February 2, 2005, p. 7; "Myanmar Military Confirms No Change in Fuel Rations," *Dow Jones International*, December 31, 2007.

Exchange controls also are extended to products by applying a system of multiple exchange rates to regulate trade in specific commodities classified as necessities or luxuries. Necessary products are placed in the most favorable (low) exchange categories, while luxuries are heavily penalized with high foreign exchange rates. Myanmar (formerly known as Burma), for example, has three exchange rates for the kyat (Kt): the official rate (Kt6:U.S.\$1), the market rate (Kt100–125:U.S.\$1), and an import duty rate (Kt100:U.S.\$1). Because the kyat is not convertible—that is, not officially exchangeable for currencies that can be spent outside the country—investors are severely affected by tax liability, and their ability to send profits outside the country is diminished. Under such exchange rates, tax liability can be very high. For instance, a profit of Kt135,000 is worth U.S.\$22,500 at the official exchange rate of Kt6 to U.S.\$1, but at the market rate, the investor has earned only U.S.\$1,000. The exchange rate difference means that the investor has to pay tax on U.S.\$21,500 of nonexistent, unearned income. It seems not much makes sense in Myanmar these days.

supply of foreign exchange for the most essential uses. A recurrent problem for the foreign investor is getting profits in and out of the host country without loss of value, which can occur when a currency is devalued. Exhibit 6.2 illustrates how exchange controls can affect an international company's profits. Many countries maintain regulations for control of currency, and should an economy suffer a setback or foreign exchange reserves decline severely, the controls on convertibility are imposed quickly.

Local-Content Laws. In addition to restricting imports of essential supplies to force local purchase, countries often require a portion of any product sold within the country to have local content, that is, to contain locally made parts. Thailand, for example, requires that all milk products contain at least 50 percent milk from local dairy farmers. Contrary to popular belief, local-content requirements are not restricted to Third World countries. The European Union has had a local-content requirement as high as 45 percent for "screwdriver operations," a name often given to foreign-owned assemblers, and NAFTA requires 62 percent local content for all cars coming from member countries.

Import Restrictions. Selective restrictions on the import of raw materials, machines, and spare parts are fairly common strategies to force foreign industry to purchase more supplies within the host country and thereby create markets for local industry. Although this restriction is an attempt to support the development of domestic industry, the result is often to hamstring and sometimes interrupt the operations of established industries. The problem then becomes critical when there are no adequately developed sources of supply within the country.

Tax Controls. Taxes must be classified as a political risk when used as a means of controlling foreign investments. In such cases, they are raised without warning and in violation of formal agreements. India, for example, taxes PepsiCo and the Coca-Cola Company 40 percent on all soda bottled in India. And, using a different angle of attack, India is attempting to collect \$40 million in taxes on travel tickets sold online from Sabre's (an airlines reservations service) data center in Tulsa, Oklahoma. The Indian government contends that Sabre has a permanent establishment in India in the form of data flows between Sabre's Tulsa processing center and the desktop computers of travel agents in India. To underdeveloped countries with economies constantly threatened with a shortage of funds, unreasonable taxation of successful foreign investments appeals to some government officials as the handiest and quickest means of finding operating funds. As the Internet grows in importance, countries will surely seize on Internet transactions as a lucrative source of revenue.

Price Controls. Essential products that command considerable public interest, such as pharmaceuticals, food, gasoline, and cars, are often subjected to price controls. Such controls applied during inflationary periods can be used to control the cost of living. They also may be used to force foreign companies to sell equity to local interests. A side effect on the local economy can be to slow or even stop capital investment.



The consequences of the U.S. embargo of Cuba: A brand new German Mercedes for a foreign diplomat (black plate), a relatively new Chinese Chery Q (red provisional plate), and one of the newest American cars you can find on the island, a 1957 Chevy (yellow citizen's plate), certainly with a refurbished engine. A variety of other European and Asian brands ply the streets of Havana, almost all recent models. No new American models are in sight.



Labor Problems. In many countries, labor unions have strong government support that they use effectively in obtaining special concessions from business. Layoffs may be forbidden, profits may have to be shared, and an extraordinary number of services may have to be provided. In fact, in many countries, foreign firms are considered fair game for the demands of the domestic labor supply. In France, the belief in full employment is almost religious in fervor; layoffs of any size, especially by foreign-owned companies, are regarded as national crises. We should also note that some multinational companies are more powerful than local labor unions. Walmart closed a store in Quebec rather than let it be unionized.

Political Sanctions

In addition to economic risks, one or a group of nations may boycott another nation, thereby stopping all trade between the countries, or may issue sanctions against the trade of specific products. The United States has long-term boycotts of trade with Cuba and Iran and has come under some criticism for its demand for continued sanctions against Cuba and its threats of future sanctions against countries that violate human rights issues.²⁷

History indicates that sanctions are almost always unsuccessful in reaching desired goals, particularly when other major nations' traders ignore them. For example, the Chinese recently signed an agreement with Iran that will bring \$70 billion of natural gas to China. Please see Crossing Borders 6.2 for more on this issue. This lack of success is the case with Cuba, North Korea, and Iran, where the undesirable behavior that the sanctions were imposed to change continues, and the only ones who seem to be hurt are the people²⁸ and companies that get caught in the middle.

²⁷Ginger Thompson, "Imposing Conditions, OAS Lifts Its Suspension of Cuba," *Washington Post*, June 4, 2009, online.

²⁸Barbara Demick, "North Koreans' Misery Amplified a Hundredfold," *Los Angeles Times*, February 3, 2010, pp. A1, A7.

CROSSING BORDERS 6.2

Trade Does Not Work as a Stick, Only as a Carrot

It was 1807 when Thomas Jefferson proposed trade sanctions as an innovation in diplomacy. The donkeys he endeavored to persuade were quite big and quite stubborn—England and France. The goal was to get these warring nations to leave American ships alone on the high seas. Lacking a competitive navy, our third president dreamed up the trade embargo; rather than using trade as a carrot, he planned to withhold trade and use it as a stick. However, instead of changing French or English policies and behaviors, Jefferson's policy actually endangered New England traders. They complained:

Our ships all in motion, once whiten'd the ocean;
They sail'd and return'd with a Cargo;
Now doom'd to decay, they are fallen a prey,
To Jefferson, worms, and EMBARGO.

Jefferson's embargo fell apart in just 15 months. Only the War of 1812 settled the problems with English aggression at sea.

Consider the track record of trade sanctions in the last century. In 1940 the United States told the Japanese to get out of China, and the ensuing embargo of gasoline and scrap metal led directly to the Pearl Harbor attack. Since 1948 Arab countries have boycotted Israel. Given that countries trade most with their close neighbors, you have to wonder how much this lack of trade has promoted the continuing conflicts in the area. Israel is still there. In 1959 Fidel Castro took over Cuba, and for the next 50+ years, the United States has boycotted sugar and cigars, but Castro remained in charge. OPEC's 1973 oil flow slowdown was intended to get America to stop supporting Israel. However, the dollars still flow fast to Israel and now Egypt as well.

In 1979 the United States told the Soviets to get out of Afghanistan. They refused. America boycotted the Moscow Olympics and stopped selling the Soviets grain and technology. The Soviet response: They continued to kill Afghans (and, by the way, Soviet soldiers) for another 10 years. Moreover, in 1984 they and their allies' athletes stayed away from the Olympics in Los Angeles. And the high-tech embargo didn't work anyway. A San

Diego division of Caterpillar lost millions of dollars in service contracts for Soviet natural gas pipelines in the mid-1970s. These revenues were lost permanently, because the Soviets taught themselves how to do the maintenance and overhauls. In 1989 a Moscow weapons research facility had every brand of computer then available in the West: IBMs, Apples, and the best from Taiwan and Japan as well.

Perhaps the 1980s' multilateral trade sanctions imposed on South Africa hastened apartheid's demise. But look how well the world's 10-year embargo of Iraq changed policy there. Using trade as a weapon killed kids while Saddam Hussein celebrated at \$12 million birthday parties. Indeed, the best prescription for Middle East peace (and American taxpayers' wallets, by the way) is all sides dropping all embargoes.

The end of the last century witnessed great strides in the elimination of ill-conceived trade sanctions. Perhaps most important was the U.S. Senate's and President's approvals of permanently normalized trade relations (PNTR) with China. However, other important steps were the relaxation of some of the trade restrictions on Vietnam, North Korea, Iran, and Cuba. Indeed, as a result of President Clinton's diplomacy, North and South Koreans marched together at the Sydney Olympics; Americans can now buy pistachio nuts and carpets from Tehran, and U.S. firms can sell medical supplies and services in Havana. Remarkable!

These same kinds of carrots need to be thrown in the direction of the other countries on America's blacklist—Myanmar, Angola, Libya, Sudan, and Syria. Be certain that the chorus of criticism regarding human rights, freedom of the press, and democracy should continue, loud and clear. But instead of dropping bombs (or threatening to), we should be selling them computers and Internet connections. The cost of a cruise missile is about the same as 2,000 Apple computers! And at the most fundamental level, coercion does not work. Exchange does.

Source: John L. Graham, "Trade Brings Peace," in Joseph Runzo and Nancy M. Martin (eds.), *War and Reconciliation* (Cambridge, MA: Cambridge University Press, 2011).

Political and Social Activists and Nongovernmental Organizations

Although not usually officially sanctioned by the government, the impact of **political and social activists** (PSAs) can also interrupt the normal flow of trade. PSAs can range from those who seek to bring about peaceful change to those who resort to violence and terrorism to effect change. When well organized, the actions of PSAs can succeed.



The most entertaining protest technique was pioneered by French farmers. Perhaps they were inspired by that American export, Animal House. In any case, French farmers like to throw their food. Here they tossed tomatoes and such at McDonald's; they've also lobbed lamb chops at their own trade ministers.

THE NEW POWER OF PEACEFUL PROTESTS

I like to believe that people in the long run are going to do more to promote peace than our governments. Indeed, I think that people want peace so much that one of these days governments had better get out of the way and let them have it.

—Dwight D. Eisenhower



Apparently they pay attention in Taiwan. Most recently, fishermen pitched perch in Taipei to protest the Japanese fishing fleet's presence in their waters.

We believe that peace happens because people want it to, not because politicians ordain it so. Our ideas are not new. Karl Popper's *Open Society*²⁹ and Jonathan Schell's *Unconquerable World*³⁰ make the same kinds of arguments. We just think in today's world of punitive trade sanctions and military muscle, it is important to remind folks that there are more viable alternatives for international relations and global persuasion.³¹

The organizers (PSAs) of these various demonstrations understand that two things are important in protests: (1) getting large numbers of people to show up and



PROTESTING MILK PRICES: A farmer sprayed milk on police forces during a protest against falling milk prices outside the European Commission headquarters in Brussels. European dairy farmers are seeking more aid to cope with a sharp drop in milk prices. An udderly fantastic shot!



BARING THEIR DISMAY: Members of the Pirate Party parade through Berlin's Tegel Airport in their underwear to protest government plans to test full-body scans as an invasion of citizens' privacy.

(2) producing memorable pictures.

On these pages are some of our favorite pictures. Please note that to the extent that the Sea Shepherd Conservation Society activists used force to board the Japanese ship (below), we cannot condone their methods. Property damage and violence are never justified; and their use demonstrates a pathetic lack of creative thinking about integrated marketing communications (see Chapter 16).



Activists of the Bharatiya Janata Party wearing "evil" masks shout antigovernment slogans near the Union Carbide plant in the central Indian city of Bhopal on the eve of World Environment Day. The activists protested to draw the attention of the government to chemical waste and demanded the cleanup of hazardous waste in the area. The leak from the Union Carbide pesticide plant in 1984 was one of the world's worst industrial accidents, killing 3,000 people and leaving thousands of others with lifetime illnesses.

They were "pirates" to some, "hostages" to others. But two anti-whaling activists (an Australian and a Briton from the Sea Shepherd Conservation Society) who drew global attention by forcibly boarding a Japanese harpoon ship in Antarctic waters have demonstrated how the emotional clash over Japan's annual whale hunt can disrupt even the best international friendships.



²⁹Karl R. Popper, *The Open Society and Its Enemies*, 5th ed. (Princeton, NJ: Princeton University Press, 1966).

³⁰Jonathan Schell, *The Unconquerable World: Power, Nonviolence, and the Will of the People* (New York: Metropolitan Books, 2003).

³¹Taken from John L. Graham, *Trade Brings Peace*, 2011.

LOS

The impact of political and social activists, violence, and terrorism on international business

In the previous pages, the protesters use creativity to make a point. We do not recommend the destructive sort of protest previously represented.

One of the most effective and best-known PSA actions was against Nestlé due to the sale of baby formula in Third World markets. The worldwide boycott of Nestlé products resulted in substantial changes in the company's marketing. More recently, activists of the Free Burma Campaign (FBC) have applied enough pressure to cause several U.S. garment companies to stop importing textiles from Myanmar. Furthermore, activists on several U.S. college campuses boycotted Pepsi Cola drinks and PepsiCo-owned Pizza Hut and Taco Bell stores, saying that the company's commercial activities contributed to the abysmal human rights in Myanmar. The results of the boycott were serious enough that PepsiCo sold its stake in its joint venture in Myanmar and withdrew from that market. The concern was that potential losses in the United States outweighed potential profits in Myanmar. Holland's Heineken and Denmark's Carlsberg beer companies withdrew from Myanmar for similar reasons.

The rather broad issue of globalization is the also the focus of many PSA groups. The demonstrations in Seattle during a 1999 WTO meeting and in Washington, DC, against the World Bank and the International Monetary Fund (IMF), along with similar demonstrations in other countries, reflect a growing concern about a global economy. Whether (or not) misguided, uninformed, or just "wackos," as they have been described, PSAs can be a potent force in rallying public opinion and are an important political force that should not be dismissed, as companies such as Nike, McDonald's, and Nestlé know.

The Internet has become an effective tool of PSAs to spread the word about whatever cause they sponsor. During protest rallies against the U.S.–Iraq war, organizers were able to coordinate protest demonstrations in 600 cities worldwide and to disseminate information easily. A Google search for "peace protest" during that time (2003) resulted in 788,000 entries (about 660,000 in 2008), including news briefs, Web sites for peace organizations, online petitions for peace, where to show up with your placard, where to send your dollars, and how to write your member of Congress.

Often associated with political activism, **nongovernmental organizations** (NGOs) are increasingly affecting policy decisions made by governments.³² Many are involved in peaceful protests, lobbying, and even collaborations with governmental organizations.

³²Hildy Teegen, Jonathan P. Doh, and Sushil Vachani, "The Importance of Non-Governmental Organizations (NGOs) in Global Governance and Value Creation: An International Business Research Agenda," *Journal of International Business Studies* 35, no. 6 (2004), pp. 463–83.



POLITICAL DISASTER STRIKES KENYA: In the Nairobi slum of Kibera, supporters of opposition leader Raila Odinga tear up a key railway that ran from the coast to Uganda. As many as 12 people were killed in the associated clashes. Of course, this destruction will do great damage to commerce and progress to all the countries in Eastern Africa. Let's hope the highway and international airport south of Nairobi stay intact, as they supply all of Europe with flowers from the burgeoning greenhouses in the area, and flower exports are a key source of revenue for the formerly thriving Kenyan economy.

Exhibit 6.3

U.S. State Department
Travel Warnings (in order
of date of posting, most
recent first)

Source: <http://travel.state.gov/travel/>,
2010.

Haiti	Chad	Colombia
Pakistan	Mali	Guinea
Sudan	Sri Lanka	Lebanon
Somalia	Nepal	Cote d'Ivoire
Mauritania	Algeria	Philippines
Burundi	Indonesia	Colombia
Cote d'Ivoire	Yemen	Philippines
Somalia	Nepal	Afghanistan
Iraq	Syria	

Many also are involved in mitigating much of the human misery plaguing parts of the planet. Some NGOs have received global recognition—the Red Cross and Red Crescent, Amnesty International, Oxfam, UNICEF, Care, and Habitat for Humanity are examples—for their good works, political influence, and even their brand power.³³

Violence, Terrorism, and War

Although not usually government initiated, violence is another related risk for multinational companies to consider in assessing the political vulnerability of their activities. The world continues to be victimized by thousands of terrorist attacks each year.³⁴ Terrorism has many different goals. Multinationals are targeted to embarrass a government and its relationship with firms, to generate funds by kidnapping executives to finance terrorist goals, to use as pawns in political or social disputes not specifically directed at them, and to inflict terror within a country, as did the events of September 11, 2001.

September 11 has raised the cost of doing business domestically and internationally. The dominance of the United States in world affairs exposes U.S. businesses to a multitude of uncertainties, from the growing danger of political violence to investment risks in emerging markets. In the past 30 years, 80 percent of terrorist attacks against the United States have been aimed at American businesses. Since September 11, McDonald's, KFC, and Pizza Hut combined have been bombed in more than 10 countries, including Turkey, Saudi Arabia, Russia, Lebanon, and China; most attacks have been linked with militant Islamic groups. There are reasons to expect that businesses will become increasingly attractive to terrorists, both because they are less well defended than government targets and because of what they symbolize. Based on the threats of terrorism and other violence, the U.S. State Department posts travel warnings on its Web site (see Exhibit 6.3 for a

³³See the excellent book by John A. Quelch and Nathalie Laidler-Kylander, *The New Global Brands: Managing Non-Governmental Organizations in the 21st Century* (Mason, OH: South-Western, 2006).

³⁴John M. Glionna, "Twin Hotel Blasts Kill 9 People in Indonesian Capital," *Los Angeles Times*, July 17, 2009, p. A25.

The communist government of Cuba disallows private advertising. Here at the corner of 23rd and L, the "Times Square" of Havana, the only signage you can see are the names of the movies and a political ad about the Cuban 5. Pictured are five Cuban nationals being held in American prisons, convicted of espionage against the United States. The Cuban government considers the five to be heroes that were infiltrating terrorist groups in south Florida, intent on attacking Cuba.



recent listing). However, many international travelers appear to regularly ignore those warnings.³⁵

Finally, we note strong reasons to believe that international warfare is fast becoming obsolete. The number of wars has declined steadily since the end of the Cold War. Even though politicians in almost all countries use xenophobia to consolidate their own political power, the threat of one country attacking another is declining fast. Some predict a coming war in space, with satellites used as weapons, but the multinational collaboration on the International Space Station makes such a possibility seem remote.³⁶ In 1996, political scientist Samuel Huntington³⁷ notoriously predicted a clash of civilizations. In his vision, the world was already divided up into nine civilizations (or cultural groupings): Western, Latin America, African, Islamic, Sinic, Hindu, Orthodox, Buddhist, and Japanese. This prediction reminds us of several others in the early 1990s who suggested the world would soon devolve into three spheres of influence based on trade, dominated by Japan, the European Union, and the United States. There may be some sense to the latter classification; time zones exercise an important influence on trade patterns that favor north-south exchanges. However, both theories oversimplify power and trade relations as they are unfolding. Both theories also ignore the successes of the World Trade Organization and the fast multiplying bilateral trade agreements, such as that between the United States and South Korea. And certainly the facts included in Exhibit 6.4 suggest that these warnings about a new clash of civilizations are off the mark. Although three of the six wars ongoing in 2010 were international ones (in Afghanistan/Pakistan, Yemen/Saudi Arabia, and Iraq/U.S.), the other three are better examples of civil wars (in Somalia, Sudan, and the drug war in Mexico). Rather than state-to-state or civilization-to-civilization military action, the greater threats to peace and commerce for the twenty-first century remain civil strife and terrorism. Finally, we note with some hope that civil conflicts can be settled through negotiation: Consider as

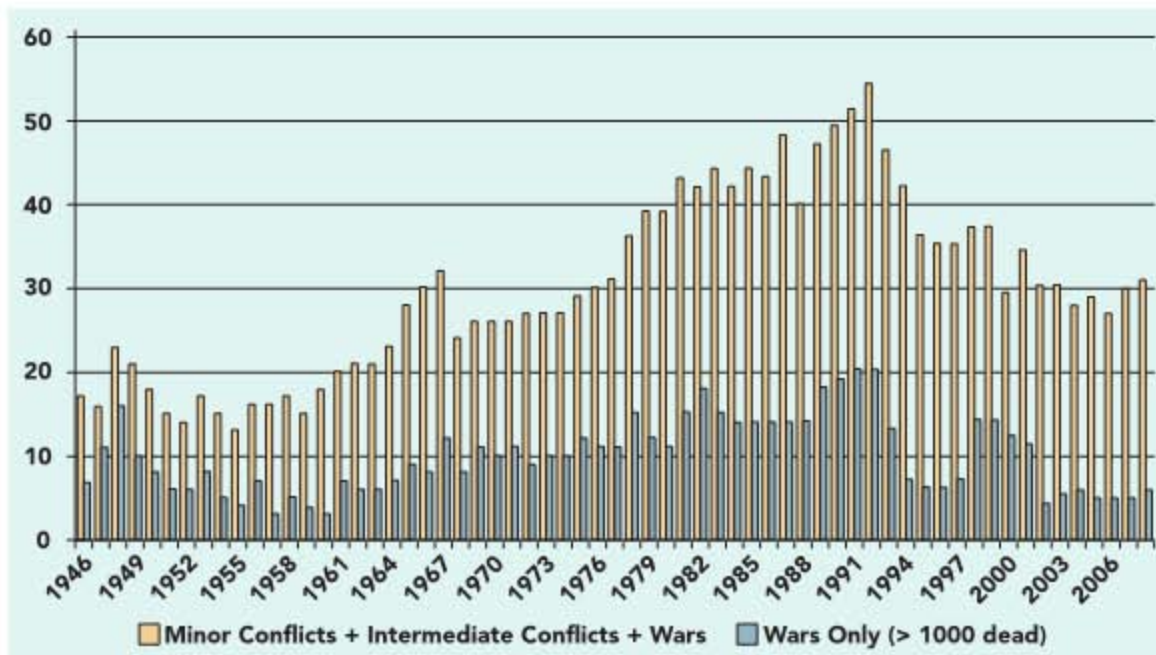
³⁵“Who Do We Trust?” *Condé Nast Traveler*, March 2005, pp. 53–62.

³⁶“Disharmony in the Spheres,” *The Economist*, January 19, 2008, pp. 25–28.

³⁷Samuel P. Huntington, *The Clash of Civilizations and the Remaking of the World Order* (New York: Simon and Schuster, 1996); Fouad Ajami, “The Clash,” *The New York Times*, January 6, 2008.

Exhibit 6.4

Armed Conflicts Around the World



Source: The International Peace Research Institute, Oslo, <http://www.prio.no> 2010.

examples the recent histories of the relatively peaceful dissolution of the Soviet Union, the divorce of the Czech and Slovak Republics, the marriage of East and West Germany, the Hong Kong handover to China by the United Kingdom, the current trade overtures between China and Taiwan,³⁸ and the ongoing discussions between the United Kingdom and Scotland.³⁹

Cyberterrorism and Cybercrime

Always on the horizon is the growing potential for cyberterrorism and cybercrime.⁴⁰ Although still in its infancy, the Internet provides a vehicle for terrorist and criminal attacks by foreign and domestic antagonists wishing to inflict damage on a company with little chance of being caught. One problem in tracing cyberterrorists and criminals is that it is hard to determine if a cyberattack has been launched by a rogue state, a terrorist, or a hacker as a prank. The “I Love You” worm, which caused an estimated \$25 billion in damage, was probably just an out-of-control prank. However, the Melissa virus and the denial of service (DoS) attacks that overloaded the Web sites of CNN, ZDNet, Yahoo!, and Amazon.com with a flood of electronic messages, crippling them for hours, were considered purposeful attacks on specific targets. Most recently, the government of China has been criticized for blocking text messaging in strife-torn regions and disrupting the local operations of Google.⁴¹

Each wave of viruses gets more damaging and spreads so rapidly that considerable harm is done before it can be stopped. The “Slammer,” for example, brought Internet service to a crawl. It doubled its numbers every 8.5 seconds during the first minute of its attack and infected more than 75,000 hosts within 10 minutes.⁴² After infecting hundreds of thousands of computers in Europe and North America, the “Goner worm” traveled to Australia overnight and brought down government agencies, financial and manufacturing sites, and at least 25 MNCs. Whether perpetrated by pranksters or hackers out to do harm, these incidents show that tools for cyberterrorism can be developed to do considerable damage to a company, an entire industry, or a country’s infrastructure.

Because of mounting concern over the rash of attacks, business leaders and government officials addressed a Group of 8⁴³ conference convened to discuss cybercrime, expressing the urgent need for cooperation among governments, industry, and users to combat the growing menace of cybercrime. As the Internet grows, “it’s only a matter of time before every terrorist, anarchist, thief, and prankster with a PC and a phone line will be waging a virtual war and inflicting real harm.”⁴⁴

Assessing Political Vulnerability

LO6

How to assess and reduce the effect of political vulnerability

There are at least as many reasons for a company’s political vulnerability as there are political philosophies, economic variations, and cultural differences. Some companies appear to be more politically vulnerable than others, in that they receive special government attention. Depending on the desirability of a company, this special attention may result in positive actions toward the company or in negative attention.

Unfortunately, a marketer has no absolute guidelines to follow to determine whether a company and its products will be subject to political attention. Countries seeking investments in high-priority industries may well excuse companies from taxes, customs duties, quotas, exchange controls, and other impediments to investment. In a bid to attract foreign investment and increase exports, India announced a new trade policy that eases restraints and offers tax breaks for companies developing and maintaining infrastructure. Conversely, firms either marketing products not considered high priority or that fall from favor for some other reason often face unpredictable government restrictions.

³⁸“Reunification by Trade?” *The Economist*, August 8, 2009, pp. 37–38.

³⁹“Straining at the Leash,” *The Economist, The World in 2009*, November 19, 2009, p. 98.

⁴⁰“Overseas Security Threats to U.S. Business Cited,” *Los Angeles Times*, December 28, 2007, p. C2.

⁴¹Johanna Neuman, “Google’s China Move Wakes Washington,” *Los Angeles Times*, January 15, 2010.

⁴²For more information, see <http://www.silicondefense.com>.

⁴³The Group of 8 (G8) Nations consisted of government representatives from Britain, Canada, France, Germany, Italy, Japan, Russia, and the United States who convene periodically to examine issues that affect the group. Most recently the group has been expanded to the G20.

⁴⁴Mark Mazzetti, “Senators Warned of Terror Attack by July,” *The New York Times*, February 3, 2010, p. A6.

As a case in point, Continental Can Company's joint venture to manufacture cans for the Chinese market faced a barrage of restrictions when the Chinese economy weakened. China decreed that canned beverages were wasteful and must be banned from all state functions and banquets. Tariffs on aluminum and other materials imported for producing cans were doubled, and a new tax was imposed on canned-drink consumption. For Continental Can, an investment that had the potential for profit after a few years was rendered profitless by a change in the attitude of the Chinese government.

Politically Sensitive Products and Issues

Although there are no specific formulas to determine a product's vulnerability at any point, there are some generalizations that help identify the tendency for products to be politically sensitive. Products that have or are perceived to have an effect on the environment, exchange rates, national and economic security, and the welfare of people (and particularly children—recall the story of Barbie in Saudi Arabia from the previous chapter) or that are publicly visible, subject to public debate, or associated with their country of origin are more likely to be politically sensitive.

Fast-food restaurants, which are intended to be visible, have often been lightning rods for groups opposed to foreign companies. Authorities closed a KFC restaurant for health reasons (two flies were seen in the kitchen) after months of protesters arguing that foreign investment should be limited to high technology. "India does not need foreign investment in junk-food," said the leader of a protesting farmers' group. The store was later reopened by court order.

Health is often the subject of public debate, and products that affect or are affected by health issues can be sensitive to political concerns. The European Union has banned hormone-treated beef for more than a decade. There is a question about whether the ban is a valid health issue or just protection for the European beef industry. The World Trade Organization concluded in 1989 that the ban had no scientific basis; nevertheless, Europe has yet to lift the ban. Reluctance to respond to the WTO directive may have been the result of the outcry against genetically modified (GM) foods that has, for all practical purposes, caused GM foods to be banned in Europe. Public opinion against Frankenfood has been so strong that Unilever announced that it would stop using GM ingredients in all its products in Britain. Additionally, 11 leading restaurant chains, including McDonald's, Pizza Hut, Wimpy, and Burger King, have gone GM-free. The issue in the United States has not risen to the same level of concern as in Europe; to forestall such adverse public opinion, many U.S. companies are slowing the introduction of GM foods. Fearing a strong public reaction as in Europe, McDonald's has decided to stop using genetically modified potatoes for its french fries in its U.S. stores.

Forecasting Political Risk

In addition to qualitative measures of political vulnerability, a number of firms are employing systematic methods of measuring political risk.⁴⁵ Political risk assessment is an attempt to forecast political instability to help management identify and evaluate political events and their potential influence on current and future international business decisions. Perhaps the greatest risk to international marketers is the threat of the government actually failing, causing chaos in the streets and markets. *Foreign Policy* magazine uses 12 criteria to rank countries on its "Failed States Index."⁴⁶ The list of criteria includes demographic pressures, human flight, uneven development, and the like. (See Exhibit 6.5.)

⁴⁵See <http://www.prsgroup.com> for a wealth of information on political risk assessments.

⁴⁶"The Failed States Index," *Foreign Policy*, July/August 2007, pp. 54–65.

Exhibit 6.5

Top 20 States in Danger of Failing (ranked in order of closest to failure)

Source: From *Foreign Policy*, "Failed States Index," May/June 2009, online. Copyright 2009 by Foreign Policy. Reproduced with permission of Foreign Policy via Copyright Clearance Center.

Somalia	Central African Republic	Nigeria
Zimbabwe	Guinea	Ethiopia
Sudan	Pakistan	North Korea
Chad	Ivory Coast	Yemen
Dem. Rep. of Congo	Haiti	Bangladesh
Iraq	Burma	East Timor
Afghanistan	Kenya	

CROSSING BORDERS 6.3

When States Fail: Dodging the Bullet in Former Yugoslavia

One pundit suggested that nations with McDonald's don't attack one another. Perhaps Yugoslavia was the exception that proves the rule?

During most of the 78-day air war against Yugoslavia in 1999, McDonald's kept the burgers flipping while NATO kept the bombs dropping. After only one night of air strikes, mobs of youths, whipped to patriotic fervor by the state-controlled media's attacks on the "NATO criminals and aggressors," targeted six McDonald's stores, smashing windows and scribbling insults on doors and walls. McDonald's Corporation was forced to temporarily close its 15 restaurants in Yugoslavia. Weeks later, when local managers flung the doors open again, they accomplished an extraordinary comeback using an unusual marketing strategy: They put McDonald's U.S. citizenship on the back burner.

Within a week after the attacks, they had launched a campaign to identify the plight of ordinary Serbs with the Mac. "McDonald's is sharing the destiny of all people here," read a sign at one branch. A key aspect of the campaign was to present McDonald's as a Yugoslav company. Restaurants promoted the McCountry, a domestic pork burger with paprika garnish, and lowered its price. Pork is considered the most Serbian of meats.

In a national flourish to evoke Serbian identity and pride, McDonald's produced posters and lapel buttons showing the golden arches topped with a traditional Serbian cap called the *sajkaca* (pronounced shy-KACH-a). The managing director said McDonald's needed to get Serbs to view the company as their own. He

masterminded the campaign to "Serbify" McDonald's. It was in this vein that he and his team decided to redesign the logo with the Serbian cap cocked at a haughty angle over one arch. Traditional national emblems, like the *sajkaca*, a strong, unique Serbian symbol, had undergone a revival in recent years with the rise of Serbian nationalism. "By adding this symbol of our cultural heritage, we hoped to denote our pride in being a local company."

Additionally, more than 3,000 free burgers were delivered to the participants of the Belgrade marathon, which was dominated by an anti-NATO theme. At the same time, the company announced that for every burger sold, it would donate one dinar (about a nickel) to the Yugoslav Red Cross to help victims of NATO's air strikes. It also handed out free cheeseburgers at anti-NATO rallies.

Once the war was over, the company basked in its success. Cash registers were ringing at prewar levels. McDonald's restaurants around the country were thronged with Serbs hungry for Big Macs and fries. And why not, asks 16-year-old Jovan Stojanovic, munching on a burger. "I don't associate McDonald's with America," he says. "Mac is ours." This claim is music to McDonald's ears. "We managed to save our brand."

And in 2009, McDonald's began negotiations to open its first store in previously war-torn Bosnia/Herzegovina. May the peace persist.

Sources: Robert Block, "How Big Mac Kept from Becoming a Serb Archenemy," *The Wall Street Journal*, September 3, 1999; John Kozak, "McDonald's Can't Serve Up World Peace," *The Guardian*, April 26, 2005, p. 27; "McDonald's Arrives in Sarajevo, Bosnia and Herzegovina," *Property Xpress*, October 9, 2009, online.

Risk assessment is used to estimate the level of risk a company is assuming when making an investment and to help determine the amount of risk it is prepared to accept. In the former Soviet Union and in China, the risk may be too high for some companies, but stronger and better financed companies can make longer-term investments in those countries that will be profitable in the future. Additionally, one study found that compared with American and Japanese managers, French managers' market entry decisions appear to be more influenced by concerns about political risk in foreign markets.⁴⁷ Early risk is accepted in exchange for being in the country when the economy begins to grow and risk subsides.

During the chaos that arose after the political and economic changes in the Soviet Union, the newly formed republics were eager to make deals with foreign investors, yet the problems and uncertainty made many investors take a wait-and-see attitude. However, as one executive commented, "If U.S. companies wait until all the problems are solved, somebody else will get the business." Certainly the many companies that are investing in the former Soviet Union or China do not expect big returns immediately; they are betting on the future. For a marketer doing business in a foreign country, a necessary part of any market analysis

⁴⁷Jennifer D. Chandler and John L. Graham, "Relationship-Oriented Cultures, Corruption, and International Marketing Success," *Journal of Business Ethics* 92, no. 2 (2010), pp. 251–67.

is an assessment of the probable political consequences of a marketing plan, since some marketing activities are more susceptible to political considerations than others.

Lessening Political Vulnerability Although a company cannot directly control or alter the political environment of the country within which it operates, a specific business venture can take measures to lessen its degree of susceptibility to politically induced risks.

Foreign investors frequently are accused of exploiting a country's wealth at the expense of the national population and for the sole benefit of the foreign investor. This attitude is best summed up in a statement made by a recent president of Peru: "We have had massive foreign investment for decades but Peru has not achieved development. Foreign capital will now have to meet government and social goals." Such charges are not wholly unsupported by past experiences.

As long as these impressions persist, the political climate for foreign investors will continue to be hostile. Companies must manage external affairs in foreign markets to ensure that the host government and the public are aware of their contributions to the economic, social, and human development of the country. Relations between governments and MNCs are generally positive if the investment (1) improves the balance of payments by increasing exports or reducing imports through import substitution; (2) uses locally produced resources; (3) transfers capital, technology, and/or skills; (4) creates jobs; and/or (5) makes tax contributions.

In addition to the economic contributions a company makes, corporate philanthropy also helps create positive images among the general population. Many MNCs strive to benefit countries through their social programs, which polish their image as well. For example, Microsoft, recognizing that developing countries need sophisticated technical assistance, pledged more than \$100 million in technology and training as part of a deal to put government services online in Mexico. Cisco Systems, the leading maker of Internet hardware, relies on nonprofit organizations to run its 10,000 networking academies, which train college and high school students to create computer networks in 150 countries. In China, Procter & Gamble is helping local schools and universities train and educate leaders. And in Malaysia, Motorola and Intel have instituted training programs to enhance the skills of local workers.

Merck, the pharmaceutical company, has developed a pill to fight river blindness in Africa and Latin America. River blindness is a parasitic disease transmitted to humans through the bite of the black fly commonly found along the riverbanks in some African countries. The parasite infiltrates, multiplies, and spreads throughout the body for as long as 15 years, causing acute skin rashes, terrible itching, and sometimes disfigurement or blindness. The pill is taken just once a year and has been proven to prevent the disease. Merck contributed millions of doses to fight the disease in developing countries.⁴⁸

Although companies strive to become good corporate citizens in their host countries, political parties seeking publicity or scapegoats for their failures often serve their own interests by focusing public opinion on the negative aspects of MNCs, whether true or false. Companies that establish deep local roots and show by example, rather than meaningless talk, that their strategies are aligned with the long-term goals of the host country stand the best chance of overcoming a less than positive image. "In times like these," says one executive, "global citizenship is perhaps more important than ever."⁴⁹ An effective defense for the multinational company is to actively participate in improving the lives of local citizens.

In addition to corporate activities focused on the social and economic goals of the host country and good corporate citizenship, MNCs can use other strategies to minimize political vulnerability and risk.

Joint Ventures Typically less susceptible to political harassment, joint ventures can be with locals or other third-country multinational companies; in both cases, a company's financial exposure is limited. A joint venture with locals helps minimize anti-MNC feelings, and a joint venture with another MNC adds the additional bargaining power of a third country.

⁴⁸David Shook, "Merck Is Treating the Third World," *BusinessWeek Online*, October 10, 2002.

⁴⁹Susan E. Reed, "Business; Technology Companies Take Hope in Charity," *The New York Times*, March 23, 2003, p. 17.

Expanding the Investment Base

Including several investors and banks in financing an investment in the host country is another strategy. This approach has the advantage of engaging the power of the banks whenever any kind of government takeover or harassment is threatened. This strategy becomes especially powerful if the banks have made loans to the host country; if the government threatens expropriation or other types of takeover, the financing bank has substantial power with the government.

Licensing

A strategy that some firms find eliminates almost all risks is to license technology for a fee. Licensing can be effective in situations in which the technology is unique and the risk is high. Of course, there is some risk assumed, because the licensee can refuse to pay the required fees while continuing to use the technology.

Planned Domestication

In those cases in which a host country is demanding local participation, the most effective long-range solution is planned phasing out, that is, planned domestication. This method is not the preferred business practice, but the alternative of government-initiated domestication can be as disastrous as confiscation. As a reasonable response to the potential of domestication, planned domestication can be profitable and operationally expedient for the foreign investor. Planned domestication is, in essence, a gradual process of participating with nationals in all phases of company operations.

Political Bargaining

Multinational companies clearly engage in lobbying and other sorts of political bargaining to avoid potential political risks.⁵⁰ Mattel issued an extraordinary apology to China over the recall of Chinese-made toys, saying the items were defective because of Mattel's design flaws rather than faulty manufacturing.⁵¹ In doing so, Mattel was (1) protecting the huge and all-important head of its value chain; (2) recognizing that it would be easier to fix its design and inspection routines than quickly affect manufacturing practices in China; and (3) uniquely for an American firm, publicly admitting its own very real culpability. On the other side of the Pacific, Toyota once considered raising prices of its cars in the American market to "help" its ailing American competitors.⁵² The Japanese government has set quotas on auto exports in the past as American car companies have struggled. And in the face of growing American and European criticism, China has agreed to put quotas on its exports of textiles and to float its currency. Now the question remains, when? Finally, a cynical way to look at the motivation behind corporate social responsibility in general is its use as a bargaining chip with foreign publics and governments.⁵³

Political Payoffs

One approach to dealing with political vulnerability is the political payoff—an attempt to lessen political risks by paying those in power to intervene on behalf of the multinational company. This choice is not an approach we recommend in any way. However, your competitors may use such a tactic, so beware. Political payoffs, or bribery, have been used to lessen the negative effects of a variety of problems. Paying heads of state to avoid confiscatory taxes or expulsion, paying fees to agents to ensure the acceptance of sales contracts, and providing monetary encouragement to an assortment of people whose actions can affect the effectiveness of a company's programs are decisions that frequently confront multinational managers and raise ethical questions.

Bribery poses problems for the marketer at home and abroad, because it is illegal for U.S. citizens to pay a bribe even if it is a common practice in the host country. Political payoffs may offer short-term benefits, but in the long run, the risks are high, and bribery is an untenable option. This issue is discussed in more detail in Chapters 5 and 7.

⁵⁰Amy J. Hillman and William P. Wan, "The Determinants of MNE Subsidiaries' Political Strategies: Evidence of Institutional Duality," *Journal of International Business Studies* 36, no. 3 (2005), pp. 322–40.

⁵¹"Mattel Apologizes to China over Recall," *Associated Press*, September 21, 2007.

⁵²"Toyota May Raise Prices to Avoid Backlash," *Associated Press*, April 26, 2005.

⁵³Daniel Franklin, "Just Good Business," *The Economist*, January 18, 2008, pp. 1–24.

POLITICAL AND ECONOMIC AID IN ACTION, WHERE EVERYBODY WINS: The Japanese government has paid for the construction of a new highway that connects key safari tourism areas in Tanzania. Foreign tourism becomes more efficient, comfortable, and profitable for the Tanzanian company (and others) pictured—Kibo is one of the best in the country. The Japanese designers, consultants, and contractors involved make money on the work. And the road ultimately pays for itself in the form of lower warranty expenses on the armada of Toyota Land Cruisers that regularly ply the path between the Makuyuni and Ngorongoro animal preserves.



Government Encouragement

LO7

How and why governments encourage foreign investment

Governments, both foreign and U.S., encourage foreign investment as well as discourage it. In fact, within the same country, some foreign businesses may fall prey to politically induced harassment, while others may be placed under a government umbrella of protection and preferential treatment. The difference lies in the evaluation of a company's contribution to the nation's interest.

The most important reason to encourage foreign investment is to accelerate the development of an economy. An increasing number of countries are encouraging foreign investment with specific guidelines aimed toward economic goals. Multinational corporations may be expected to create local employment, transfer technology, generate export sales, stimulate growth and development of local industry, conserve foreign exchange, or meet a combination of these expectations as a requirement for market concessions. Recent investments in China, India, and the former republics of the Soviet Union include provisions stipulating specific contributions to economic goals of the country that must be made by foreign investors.

The U.S. government is motivated for economic as well as political reasons to encourage American firms to seek business opportunities in countries worldwide, including those that are politically risky. It seeks to create a favorable climate for overseas business by providing the assistance that helps minimize some of the more troublesome politically motivated financial risks of doing business abroad. The Department of Commerce (DOC) at www.doc.gov is the principal agency that supports U.S. business abroad. The International Trade Administration (ITA) at www.ita.gov, a bureau of the DOC, is dedicated to helping U.S. business compete in the global marketplace. Other agencies that provide assistance to U.S. companies include:

- Export-Import Bank (Ex-Im Bank) underwrites trade and investments for U.S. firms. www.exim.gov
- Foreign Credit Insurance Association (FCIA), an agency of the Ex-Im Bank, provides credit insurance that minimizes nonpayment risk caused by financial, economic, or political uncertainties. It includes insurance against confiscation, civil disturbances, and the cancellation or restriction of export or import licenses. www.fcia.com
- The Agency for International Development (AID) provides aid to underdeveloped countries and has limited protection in support of "essential" projects in approved countries and for approved products. www.usaid.gov
- The Overseas Private Investment Corporation (OPIC) provides risk insurance for companies investing in less-developed countries. www.opic.gov

Summary

Vital to every marketer's assessment of a foreign market is an appreciation for the political environment of the country within which he or she plans to operate. Government involvement in business activities abroad, especially foreign-controlled business, is generally much greater than business is accustomed to in the United States. The foreign firm must strive to make its activities politically acceptable, or it may be subjected to a variety of politically condoned harassment. In addition to the harassment that can be imposed by a government, the foreign marketer frequently faces the problem of uncertainty of continuity in government

policy. As governments change political philosophies, a marketing firm accepted under one administration might find its activities undesirable under another. An unfamiliar or hostile political environment does not necessarily preclude success for a foreign marketer if the company becomes a local economic asset and responds creatively to the issues raised by political and social activists. The U.S. government may aid an American business in its foreign operations, and if a company is considered vital to achieving national economic goals, the host country often provides an umbrella of protection not extended to others.

Key Terms

Sovereignty
Nationalism
Confiscation

Expropriation
Domestication

Political and social activists
(PSAs)

Nongovernmental
organizations (NGOs)

Questions

1. Define the key terms listed above.
2. Why would a country rather domesticate than expropriate?
3. "A crucial fact when doing business in a foreign country is that permission to conduct business is controlled by the government of the host country." Comment.
4. What are the main factors to consider in assessing the dominant political climate within a country?
5. Why is a working knowledge of political party philosophy so important in a political assessment of a market? Discuss.
6. How can a change in the political party in power affect an investor? Discuss and give examples.
7. What are the most common causes of instability in governments? Discuss.
8. Discuss how governmental instability can affect marketing.
9. What are the most frequently encountered political risks in foreign business? Discuss.
10. Expropriation is considered a major risk of foreign business. Discuss ways in which this particular type of risk can be minimized somewhat as a result of company activities. Explain how these risks have been minimized by the activities of the U.S. government.
11. How do exchange controls impede foreign business? Discuss.
12. How do foreign governments encourage foreign investment? Discuss.
13. How does the U.S. government encourage foreign investment?
14. What are the motives behind U.S. government encouragement for foreign investment? Explain.
15. Discuss measures a company might take to lessen its political vulnerability.
16. Select a country and analyze it politically from a marketing viewpoint.
17. The text suggests that violence is a politically motivated risk of international business. Comment.
18. There is evidence that expropriation and confiscation are less frequently encountered today than just a few years ago. Why? What other types of political risks have replaced expropriation and confiscation in importance?
19. You are an executive in a large domestic company with only minor interests in international markets; however, corporate plans call for major global expansion. Visit the home page of Control Risks Group (CRG) at www.crg.com. After thoroughly familiarizing yourself with the services offered by CRG, write a brief report to management describing how its services could possibly help with your global expansion.
20. Visit the Web site www.politicalresources.net/ and select the Political Site of the Week. Write a brief political analysis highlighting potential problem areas for a company interested in investing in that country.
21. Search the Web for information about the activities of PSAs outside the United States and write a briefing paper for international management on potential problems.
22. Discuss ways the companies discussed in the Global Perspective could have minimized their losses in the banana wars.
23. Discuss any ethical and socially responsible issues that may be implied in the Global Perspective.

Chapter 7

The International Legal Environment:

PLAYING BY THE RULES



CHAPTER OUTLINE

Global Perspective: The Pajama Capers

Bases for Legal Systems

- Common vs. Code Law
- Islamic Law
- Marxist–Socialist Tenets

Jurisdiction in International Legal Disputes

International Dispute Resolution

- Conciliation
- Arbitration
- Litigation

Protection of Intellectual Property Rights: A Special Problem

- Counterfeiting and Piracy
- Inadequate Protection
- Prior Use versus Registration
- International Conventions
- Other Managerial Approaches to Protecting Intellectual Property

Cyberlaw: Unresolved Issues

- Domain Names and Cybersquatters
- Taxes
- Jurisdiction of Disputes and Validity of Contracts

Commercial Law within Countries

- Marketing Laws
- Green Marketing Legislation
- Foreign Countries' Antitrust Laws

U.S. Laws Apply in Host Countries

- Foreign Corrupt Practices Act
- U.S. Antitrust Laws that Apply in Foreign Markets
- Antiboycott Law
- Extraterritoriality of U.S. Laws

Export Restrictions

- National Security Laws
- Determining Export Requirements
- ELAIN, STELA, ERIC, and SNAP

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 7:

- LO1** The four heritages of today's legal systems
- LO2** The important factors in the jurisdiction of legal disputes
- LO3** The various methods of dispute resolution
- LO4** The unique problems of protecting intellectual property rights internationally
- LO5** How to protect against piracy and counterfeiting
- LO6** The many issues of evolving cyberlaw
- LO7** The legal differences between countries and how those differences can affect international marketing plans
- LO8** The different ways U.S. laws can be applied to U.S. companies operating outside the United States
- LO9** The steps necessary to move goods across country borders

Global Perspective

THE PAJAMA CAPER

Six headlines illustrate the entanglements possible when U.S. law, host-country law, and a multinational company collide:

- “Wal-Mart’s Cuban-Made Pajamas Defy Embargo”
- “Wal-Mart Ignites Row by Pulling Cuban Pajamas off Shelves in Canada”
- “Canada, U.S. Wager Diplomatic Capital in a High-Stakes Pajama Game”
- “Cuban Quandary: Wal-Mart in Hot Water for Yanking Pajamas”
- “Canada Probes Wal-Mart Move against Cuban Pajamas”
- “Wal-Mart Puts Cuban Goods Back on Sale”

The controversy arose over a U.S. embargo forbidding U.S. businesses to trade with Cuba and concern whether or not the embargo could be enforced in Canada. Walmart was selling Cuban-made pajamas in Canada. When Walmart officials in the United States became aware of the origin of manufacture, they issued an order to remove all the offending pajamas because it is against U.S. law (the Helms-Burton Act) for a U.S. company or any of its foreign subsidiaries to trade with Cuba. Canada was incensed at the intrusion of U.S. law on Canadian citizens. The Canadians felt they should have the choice of buying Cuban-made pajamas.

Walmart was thus caught in the middle of conflicting laws in Canada and the United States and a Canada–U.S. foreign policy feud over the extraterritoriality of U.S. law. Walmart Canada would be breaking U.S. law if it continued to sell the pajamas, and it would be subject to a million-dollar fine and possible imprisonment of its managers. However, if the company pulled the pajamas out of Canadian stores as the home office ordered, it would be subject to a \$1.2 million fine under Canadian law. After discussion with Canadian authorities, Walmart resumed selling the pajamas. Canada was upset with the United States for attempting to impose its laws on Canadian companies (Walmart Canada is a subsidiary of Walmart U.S.), while the United States says that Walmart was violating its laws in not abiding by the boycott against Cuba. The situation illustrates the reality of the legal environment and international marketing—companies are subject to both home-country laws and host-country laws when doing business in another country. The federal government finally settled with Walmart in 2003, and the pajama caper was finally closed. However, as indicated in the previous chapter, the governments of Cuba and the United States have yet to settle.

Sources: *Boston Globe*, March 3, 1997; *St. Louis Post-Dispatch*, March 9, 1997; *Washington Post*, March 14, 1997, p. A6; *The Wall Street Journal*, March 14, 1997, p. B4; John W. Boscariol, “An Anatomy of a Cuban Pyjama Crisis,” *Law and Policy in International Business*, Spring 1999, p. 439; William Booth and Mary Beth Sheridan, “Cuba Detains U.S. Government Contractor,” *Washington Post*, December 13, 2009, p. A12.

How would you like to play a game in which the stakes were high, there was no standard set of rules to play by, the rules changed whenever a new player entered the game, and, when a dispute arose, the referee used the other players' rules to interpret who was right? This game fairly well describes the international legal environment. Because no single, uniform international commercial law governing foreign business transactions exists, the international marketer must pay particular attention to the laws of each country within which it operates.¹ An American company doing business with a French customer has to contend with two jurisdictions (United States and France), two tax systems, two legal systems, and other supranational sets of European Union laws and WTO regulations that may override commercial laws of the countries. The situation is similar when doing business in Japan, Germany, or any other country. Laws governing business activities within and between countries are an integral part of the legal environment of international business.

The legal systems of different countries are so disparate and complex that it is beyond the scope of this text to explore the laws of each country individually. There are, however, issues common to most international marketing transactions that need special attention when operating abroad. Jurisdiction, dispute resolution, intellectual property, the extraterritoriality of U.S. laws, cyberlaw, and associated problems are discussed in this chapter to provide a broad view of the international legal environment. Although space and focus limit an in-depth presentation, the material presented should be sufficient for the reader to conclude that securing expert legal advice is a wise decision when doing business in another country. The foundation of a legal system profoundly affects how the law is written, interpreted, and adjudicated. The place to begin is with a discussion of the different legal systems.

Bases for Legal Systems

LO1

The four heritages of today's legal systems

Four heritages form the bases for the majority of the legal systems of the world: (1) common law, derived from English law and found in England, the United States, Canada,² and other countries once under English influence; (2) civil or code law, derived from Roman law and found in Germany, Japan, France, and non-Islamic and non-Marxist countries; (3) Islamic law, derived from the interpretation of the Koran and found in Pakistan, Iran, Saudi Arabia, and other Islamic states; and (4) a commercial legal system in the Marxist-socialist economies of Russia and the republics of the former Soviet Union, Eastern Europe, China, and other Marxist-socialist states whose legal system centered on the economic, political, and social policies of the state. As each country moves toward its own version of a free market system and enters the global market, a commercial legal system is also evolving from Marxist-socialist tenets. China has announced that it will adopt a constitution-based socialist legal system with Chinese characteristics.

The differences among these four systems are of more than theoretical importance because due process of law may vary considerably among and within these legal systems. Even though a country's laws may be based on the doctrine of one of the four legal systems, its individual interpretation may vary significantly—from a fundamentalist interpretation of Islamic law as found in Pakistan to a combination of several legal systems found in the United States, where both common and code law are reflected in the legal system.

One measure of the importance of the legal system in each country is the number of attorneys per capita. Please see Exhibit 7.1. Judging by that metric, the legal system is called upon to settle commercial disputes much more frequently in the United States than in almost all countries, and particularly China. China's legal system is really only 30 years old; in the 1980s, the country had 3,000 attorneys, and now the number is closer to 150,000. The number of law schools has exploded from 8 in 1976 to almost 600 now.³ By comparison, the

¹Ilan Greenberg, "American Snared in Kazakh Legal Dispute," *The New York Times*, April 23, 2007, p. A11; Lorraine Woellert, "Made in China. Sued Here." *BusinessWeek*, July 9 and 16, 2007, p. 9.

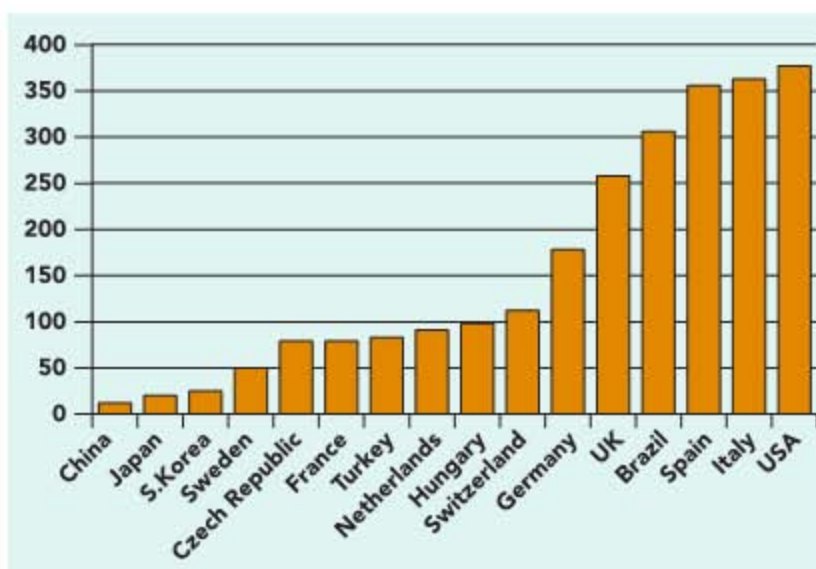
²All the provinces of Canada have a common-law system with the exception of Quebec, which is a code-law province. All the states in the United States are common law except Louisiana, which is code law.

³Randy Peerenboom, "Economic Development and the Development of the Legal Profession in China," presentation, Oxford University, 2006.

Exhibit 7.1

Lawyers per 100,000 People in Selected Countries

Sources: Kana Inagaki, "Major Legal Reforms Expected to Bring Wave of New Lawyers in Japan," *Associated Press*, August 22, 2007; Randy Peerenboom, "Economic Development and the Development of the Legal Profession in China," presentation at Oxford University, 2006; Council of Bars and Law Societies of Europe, <http://www.cbbe.edu>, 2010; <http://www.oab.org.br>, 2010; <http://www.abanet.org>, 2010.



legal system in Japan is much more developed. Even so, as the Japanese economy continues to become more integrated in the global market, the need for attorneys is burgeoning. There are approximately 23,000 attorneys there now, and the Japanese government intends to grow that number to 50,000 by 2018⁴.

Common vs. Code Law

The basis for **common law**⁵ is tradition, past practices, and legal precedents set by the courts through interpretations of statutes, legal legislation, and past rulings. Common law seeks "interpretation through the past decisions of higher courts which interpret the same statutes or apply established and customary principles of law to a similar set of facts." **Code law**,⁶ in contrast, is based on an all-inclusive system of written rules (codes) of law. Under code law, the legal system is generally divided into three separate codes: commercial, civil, and criminal.

Common law is recognized as not being all-inclusive, whereas code law is considered complete as a result of catchall provisions found in most code-law systems. For example, under the commercial code in a code-law country, the law governing contracts is made inclusive with the statement that "a person performing a contract shall do so in conformity with good faith as determined by custom and good morals." Although code law is considered all-inclusive, it is apparent from the foregoing statement that some broad interpretations are possible in order to include everything under the existing code.

Steps are being taken in common-law countries to codify commercial law even though the primary basis of commercial law is common law, that is, precedents set by court decisions. An example of the new uniformity is the acceptance of the Uniform Commercial Code by most states in the United States. Even though U.S. commercial law has been codified to some extent under the Uniform Commercial Code, the philosophy of interpretation is anchored in common law.

As discussed later in the section on the protection of intellectual property, laws governing intellectual property offer the most striking differences between common-law and code-law systems. Under common law, ownership is established by use; under code law, ownership is determined by registration. In some code-law countries, certain agreements may not be enforceable unless properly notarized or registered; in a common-law country,

⁴Kana Inagaki, "Major Legal Reforms Expected to Bring Wave of New Lawyers in Japan," *Associated Press*, August 22, 2007.

⁵Also known as English law.

⁶Also known as the Napoleonic Code.

the same agreement may be binding so long as proof of the agreement can be established. Although every country has elements of both common and code law, the differences in interpretation between common- and code-law systems regarding contracts, sales agreements, and other legal issues are significant enough that an international marketer familiar with only one system must enlist the aid of legal counsel for the most basic legal questions.

Another illustration of how fundamental differences in the two systems can cause difficulty is in the performance of a contract. Under common law in the United States, the impossibility of performance does not necessarily excuse compliance with the provisions of a contract unless compliance is impossible because of an act of God, such as some extraordinary occurrence of nature not reasonably anticipated by either party of a contract. Hence floods, lightning, earthquakes, and similar events are generally considered acts of God. Under code law, acts of God are not limited solely to acts of nature but are extended to include “unavoidable interference with performance, whether resulting from forces of nature or unforeseeable human acts,” including such things as labor strikes and riots.

Consider the following situations: A contract was entered into to deliver a specific quantity of cloth. In one case, before the seller could make delivery, an earthquake caused the destruction of the cloth and compliance was then impossible. In the second case, pipes in the sprinkler system where the material was stored froze and broke, spilling water on the cloth and destroying it. In each case, loss of the merchandise was sustained and delivery could not be made. Were the parties in these cases absolved of their obligations under the contract because of the impossibility of delivery? The answer depends on the system of law invoked.

In the first situation, the earthquake would be considered an act of God under both common and code law, and impossibility of performance would excuse compliance under the contract. In the second situation, courts in common-law countries would probably rule that the bursting of the water pipes did not constitute an act of God if it happened in a climate where freezing could be expected. Therefore, impossibility of delivery would not necessarily excuse compliance with the provisions of the contract. In code-law countries, where the scope of impossibility of performance is extended considerably, the destruction might very well be ruled an act of God, and thus, release from compliance with the contract could be obtained.

Islamic Law

The basis for the *Shari'ah* (Islamic law) is interpretation of the Koran. It encompasses religious duties and obligations, as well as the secular aspect of law regulating human acts. Broadly speaking, Islamic law defines a complete system that prescribes specific patterns of social and economic behavior for all individuals. It includes issues such as property rights, economic decision making, and types of economic freedom. The overriding objective of the Islamic system is social justice.

Among the unique aspects of Islamic law is the prohibition against the payment of interest. The Islamic law of contracts states that any given transaction should be devoid of *riba*, which is defined as unlawful advantage by way of excess of deferment, that is, interest or usury. Prohibiting the receipt and payment of interest is the nucleus of the Islamic system. However, other principles of Islamic doctrine advocate risk sharing, individuals' rights and duties, property rights, and the sanctity of contracts. The Islamic system places emphasis on the ethical, moral, social, and religious dimensions to enhance equality and fairness for the good of society. Another principle of the Islamic legal system is the prohibition against investment in those activities that violate the *Shari'ah*. For example, any investment in a business dealing with alcohol, gambling, and casinos would be prohibited.

Prohibition against the payment of interest affects banking and business practices severely.⁷ However, certain acceptable



Banking in Dubai, UAE, requires an understanding of Islamic law and customs. Prohibition against the payment of interest and prohibition against investments in businesses dealing with alcohol and gambling are two of the tenets of Islamic law that affect banking.

⁷Sugata Ghosh, “Government Asks RBI to Draw up Roadmap for Islamic Banking,” *Economic Times*, July 6, 2005.

practices adhere to Islamic law and permit the transaction of business. Mortgages for property are difficult because payment of interest is forbidden under Islamic law. Buyers of real property have to use a financier, who buys the property and then sells it to them in return for repayments of the capital. Instead of charging interest, a financier either sells the property at a higher price or sells it at the same price and takes additional payments to cover what would have been interest. Of the other ways to comply with Islamic law in financial transactions, trade with markup or cost-plus sale (*murabaha*) and leasing (*ijara*) are the most frequently used. In both *murabaha* and *ijara*, a mutually negotiated margin is included in the sale price or leasing payment. These practices meet the requirements of *Shari'ah* by enabling borrowers and lenders to share in the rewards as well as losses in an equitable fashion. They also ensure that the process of wealth accumulation and distribution in the economy is fair and representative of true productivity. Strict fundamentalists often frown on such an arrangement, but it is practiced and is an example of the way the strictness of Islamic law can be reconciled with the laws of non-Islamic legal systems.

Because the laws are based on interpretation of the Koran, the international marketer must have knowledge of the religion's tenets and understand the way the law may be interpreted in each region. Regional courts can interpret Islamic law from the viewpoint of fundamentalists (those that adhere to a literal interpretation of the Koran), or they may use a more liberal translation. A company can find local authorities in one region willing to allow payment of interest on deferred obligations as stipulated in a contract, while in another region, all interest charges may be deleted and replaced with comparable "consulting fees." In yet another, authorities may void a contract and declare any payment of interest illegal. Marketers conducting business in Islamic-law countries must be knowledgeable about this important legal system.

Marxist-Socialist Tenets

As socialist countries become more directly involved in trade with non-Marxist countries, it has been necessary to develop a commercial legal system that permits them to engage in active international commerce. The pattern for development varies among the countries because each has a different background, and each is at a different stage in its development of a market-driven economy. For example, central European countries such as the Czech Republic and Poland had comprehensive codified legal systems before communism took over, and their pre-World War II commercial legal codes have been revised and reinstated. Consequently, they have moved toward a legal model with greater ease than some others have. Russia and most of the republics of the former Soviet Union and China have had to build from scratch an entire commercial legal system. Under the premise that law, according to **Marxist-socialist tenets**, is strictly subordinate to prevailing economic conditions, such fundamental propositions as private ownership, contracts, due process, and other legal mechanisms have had to be developed. China and Russia differ, however, in that each has taken a different direction in its political economic growth. Russia is moving toward a democratic system. China is attempting to activate a private sector within a multi-component, or mixed, economy in a socialist legal framework; that is, it tries to "perform its functions according to law and contribute to the development of socialist democracy and political civilization in China."

Both countries have actively passed laws, though the process has been slow and often disjointed. China has implemented hundreds of new laws and regulations governing trade, yet the process is hampered by vaguely written laws, the lack of implementation mechanisms for the new laws, and an ineffective framework for dispute resolution and enforcement. A good example is China's attempt to control what goes on in Chinese cyberspace by applying the States Secrets Law to the Internet. The definition of a state secret is so broad that it can cover any information not cleared for publication with the relevant authorities.

Russia's experience has been similar to China's, in that vaguely worded laws have been passed without mechanisms for implementation. The situation in Russia is often described as chaotic because of the laws' lack of precision. For example, to illegally receive or disseminate commercial secrets has become a crime, but the law provides no exact definition of a commercial secret. Copyright law violations that cause "great damage" are listed but with no clear definition of how much damage constitutes "great." Both China and Russia

are hampered by not having the heritage of a legal commercial code to build on, as many of the Eastern-bloc European countries had.

The international marketer must be concerned with the differences among common law, code law, Islamic law, and socialist legal systems when operating between countries; the rights of the principals of a contract or some other legal document under one law may be significantly different from their rights under the other. It should be kept in mind that there could also be differences between the laws of two countries whose laws are based on the same legal system. Thus, the problem of the marketer is one of anticipating the different laws regulating business, regardless of the legal system of the country.

Jurisdiction in International Legal Disputes

LO2

The important factors in the jurisdiction of legal disputes

Determining whose legal system has jurisdiction when a commercial dispute arises is another problem of international marketing. A frequent error is to assume that disputes between citizens of different nations are adjudicated under some supranational system of laws. Unfortunately, no judicial body exists to deal with legal commercial problems arising among citizens of different countries. Confusion probably stems from the existence of international courts such as the World Court at The Hague and the International Court of Justice, the principal judicial organ of the United Nations. These courts are operative in international disputes between sovereign nations of the world rather than between private citizens and/or companies.

Legal disputes can arise in three situations: between governments, between a company and a government, and between two companies. The World Court can adjudicate disputes between governments, whereas the other two situations must be handled in the courts of the country of one of the parties involved or through arbitration. Unless a commercial dispute involves a national issue between nation states, the International Court of Justice or any similar world court does not handle it. Because there is no “international commercial law,” the foreign marketer must look to the legal system of each country involved—the laws of the home country, the laws of the countries within which business is conducted, or both.⁸

When international commercial disputes must be settled under the laws of one of the countries concerned, the paramount question in a dispute is: Which law governs? Jurisdiction is generally determined in one of three ways: (1) on the basis of jurisdictional clauses included in contracts, (2) on the basis of where a contract was entered into, or (3) on the basis of where the provisions of the contract were performed.

The most clear-cut decision can be made when the contracts or legal documents supporting a business transaction include a jurisdictional clause. A clause similar to the following establishes jurisdiction in the event of disagreements:

That the parties hereby agree that the agreement is made in Oregon, USA, and that any question regarding this agreement shall be governed by the law of the state of Oregon, USA.

This clause establishes that the laws of the state of Oregon would be invoked should a dispute arise. If the complaint were brought in the court of another country, it is probable that the same Oregon laws would govern the decision. Cooperation and a definite desire to be judicious in foreign legal problems have led to the practice of foreign courts judging disputes on the basis of the law of another country or state whenever applicable. Thus, if an injured party from Oregon brings suit in the courts of Mexico against a Mexican over a contract that included the preceding clause, it would not be unusual for the Mexican courts to decide on the basis of Oregon law. This tendency assumes, of course, it has been recognized that Oregon law prevailed in this dispute, either as a result of the prior agreement by the parties or on some other basis.

⁸For a legal and thorough discussion of the globalization of jurisdiction, see Paul Schiff Berman, “The Globalization of Jurisdiction,” *University of Pennsylvania Law Review*, December 2002, p. 311; Yadong Luo, “Transactional Characteristics, Institutional Environment, and Joint Venture Contracts,” *Journal of International Business Studies* 36, no. 2 (2005), pp. 209–30.

International Dispute Resolution When things go wrong in a commercial transaction—the buyer refuses to pay, the product is of inferior quality, the shipment arrives late, or any one of the myriad problems that can arise—what recourse does the international marketer have? The first step in any dispute is to try to resolve the issue informally, but if that fails, the foreign marketer must resort to more resolute action. Such action can take the form of conciliation, arbitration, or, as a last resort, litigation. Most international businesspeople prefer a settlement through arbitration rather than by suing a foreign company.

LO3

The various methods of dispute resolution

Conciliation Most disputes that arise in commercial transactions are settled informally. When resolution is not forthcoming however, conciliation can be an important first step in settling a dispute. **Conciliation** (also known as *mediation*) is a nonbinding agreement between parties to resolve disputes by asking a third party to mediate differences. The function of the mediator is to carefully listen to each party and to explore, clarify, and discuss the various practical options and possibilities for a solution with the intent that the parties will agree on a solution. Unlike arbitration and litigation, conciliation sessions are private, and all conferences between parties and the mediator are confidential; the statements made by the parties may not be disclosed or used as evidence in any subsequent litigation or arbitration. The track record for the conciliation process is excellent, with a majority of disputes reaching settlement and leading to the resumption of business between the disputants.

Conciliation is considered especially effective when resolving disputes with Chinese business partners, because they feel less threatened by conciliation than arbitration. The Chinese believe that when a dispute occurs, informal, friendly negotiation should be used first to solve the problem; if that fails, conciliation should be tried. In fact, some Chinese companies may avoid doing business with companies that resort first to arbitration. Conciliation can be either formal or informal. Both sides agreeing on a third party to mediate can establish informal conciliation. Formal conciliation is conducted under the auspices of some tribunal such as the Beijing Conciliation Center, which assigns one or two conciliators to mediate. If an agreement is reached, a conciliation statement based on the signed agreement is recorded. Although conciliation may be the friendly route to resolving disputes in China, it is not legally binding; thus, an arbitration clause should be included in all conciliation agreements. Experience has shown that having an arbitration clause in the conciliation agreement makes it easier to move to arbitration if necessary.

Arbitration If conciliation is not used or an agreement cannot be reached, the next step is *arbitration*. When all else fails, arbitration rather than litigation is the preferred method for resolving international commercial disputes. The usual **arbitration** procedure is for the parties involved to select a disinterested and informed party or parties as referees to determine the merits of the case and make a judgment that both parties agree to honor. Although informal arbitration is workable, most arbitration is conducted under the auspices of one of the more formal domestic and international arbitration groups organized specifically to facilitate the resolution of commercial disputes. These groups have formal rules for the process and experienced arbitrators to assist. In most countries, decisions reached in formal arbitration are enforceable under the law.

The popularity of arbitration has led to a proliferation of arbitral centers established by countries, organizations, and institutions. All have adopted standardized rules and procedures to administer cases, and each has its strengths and weaknesses. Some of the more active are the following:

- The Inter-American Commercial Arbitration Commission
- The Canadian-American Commercial Arbitration Commission (for disputes between Canadian and U.S. businesses)
- The London Court of Arbitration (decisions are enforceable under English law and English courts)
- The American Arbitration Association (www.adr.org/)
- The International Chamber of Commerce (www.iccwbo.org/; select Arbitration)

CROSSING BORDERS 7.1

České Budějovice, Privatization, Trademarks, and Taste Tests—What Do They Have in Common with Anheuser-Busch? Budweiser, That's What!

Anheuser-Busch (AB) launched a massive public relations program in the small Czech town of České Budějovice, where a local brewery produces “Budweiser Budvar.” Anheuser-Busch planted trees along main avenues, opened a new cultural center offering free English courses to citizens and management advice to budding entrepreneurs, and ran newspaper ads touting the possibilities of future cooperation.

Anheuser-Busch's goal was to win support for a minority stake in the Czech state-owned brewery, Budějovický Budvar N.P., when the government privatized it. So why was AB interested in a brewery whose annual production of 500,000 barrels is the equivalent of two days' output for AB?

Part ownership is critically important to Anheuser-Busch for two reasons. It is in search of new markets in Europe, and it wants to be able to market the Budweiser brand in Europe. So what's the connection? AB doesn't have the rights to use the Budweiser brand in Europe because Budějovický Budvar N.P. owns it. Its public relations plan didn't work because many Czechs see Budvar as the “family silver.” Although the Czech prime minister asked publicly for American investors to put money into the Czech Republic, Czech Budweiser was not on the government's privatization list. “I believe in the strength of American investors, but I do not believe in the quality of American beer.”

Anheuser-Busch established the name Budweiser in the United States when German immigrants founded the St. Louis family brewery and began selling under the Budweiser brand in 1876, 19 years before the Czech brewery opened. The Czechs claim they have been using the name since before Columbus discovered the New World and that Budweiser refers to Budwis, the original name of the city where Budvar is located. That is the name commonly referred to beer brewed in that area hundreds of years before AB started brewing Budweiser.

The Anheuser-Busch Company markets Budweiser brand beer in North America, but in Europe, it markets Busch brand beer, because the Czechs have the rights to the use of the name Budweiser. Diplomacy and public relations didn't work, so what next? The parties have each other tied up in legal wrangling over who has the rights to the Budweiser name and to derivations of it, such as Bud. More than 40 lawsuits and 40 administrative cases are pending across Europe. Because U.S. law protects Anheuser-Busch's rights to the Budweiser label in the United States, the Czechs sell their beer as “Czechvar.”

The Czech brewery exports to 37 countries, mainly in Europe, and AB has sales in more than 70 countries

around the world. Anheuser-Busch sought a court order to have the Czech company's products taken off the shelves in Hong Kong, won a ruling in Hungary, and has launched similar lawsuits in the United Kingdom and the United States. AB said the Czech brewery had imported and sold beer in the United States labeled “Budweiser Budvar” in the state of Maryland. It also says the Czech brewery is mimicking its name to confuse beer drinkers and cash in on the U.S. company's success.

The Czech government petitioned the WTO to grant beer regions the same kind of labeling protection that it gives to wine regions. Just as sparkling wines made in the Champagne region of France are the only ones legally entitled to call themselves champagne, it would mean that only beers brewed in České Budějovice could call themselves Budweiser and only those brewed in Pilsen, another Czech town, could claim to be Pilsner. It seems unlikely that this request will win approval, because Pilsner has become a generic designation for a style of beer, and unlike the grapes that come from Champagne, the malt and the hops that go into its beer do not come exclusively from České Budějovice.

The legal battle for the exclusive right to use the brand names Bud and Budweiser has spread worldwide. So far, this tactic hasn't worked too well either. Britain's high court allowed both companies to use the names Bud and Budweiser, whereas Switzerland's highest court banned Anheuser-Busch from selling beer under the Bud name.

We all know that the proof of who's best is in the tasting, right? Both lagers have legions of fans. The U.S. version lives up to its old slogan of “king of beers,” at least as far as sales go: It's the top-selling beer in the world. The Czech version—nicknamed the “beer of kings” because it comes from a town that once brewed for royalty—has large followings in Germany and other parts of Europe. So the St. Louis Post-Dispatch hosted a blind taste test to determine which beer is better—Budvar won. And, most recently the Europeans have won another battle: In 2009, Anheuser-Busch agreed to merge with InBev, with its global headquarters now in Leuven, Belgium.

Visit the Budvar Web site (www.budvar.cz) for the history of Budvar and a tour of the plant.

Sources: A1 Stamborski, “Battle of the Buds: Taste Testers Say That Budvar Is Better,” *St. Louis Post-Dispatch*, November 28, 1999, p. E1; “Prime Minister Says Budvar Will Stay Czech,” *Modern Brewery*, March 2000; Gregory Cancelada, “Czech Brewery Retains Right to Use ‘Budweiser’ and ‘Bud’ Trademarks,” *St. Louis Post-Dispatch*, February 17, 2003; <http://www.AB-Inbev.com>, 2010.

The procedures used by formal arbitration organizations are similar. Arbitration under the rules of the International Chamber of Commerce (ICC) affords an excellent example of how most organizations operate. When an initial request for arbitration is received, the chamber first attempts conciliation between the disputants. If this fails, the process of arbitration is started. The plaintiff and the defendant select one person each from among acceptable arbitrators to defend their case, and the ICC Court of Arbitration appoints a third member, generally chosen from a list of distinguished lawyers, jurists, and professors.

The history of ICC effectiveness in arbitration has been spectacular. An example of a case that involved arbitration by the ICC concerned a contract between an English business and a Japanese manufacturer. The English business agreed to buy 100,000 plastic dolls for 80 cents each. On the strength of the contract, the English business sold the entire lot at \$1.40 per doll. Before the dolls were delivered, the Japanese manufacturer had a strike; the settlement of the strike increased costs, and the English business was informed that the delivery price of the dolls had increased from 80 cents to \$1.50 each. The English business maintained that the Japanese firm had committed to make delivery at 80 cents and should deliver at that price. Each side was convinced that it was right.

The Japanese, accustomed to code law, felt that the strike was beyond their control (an act of God) and thus compliance with the original provisions of the contract was excused. The English, accustomed to common law, did not accept the Japanese reasons for not complying because they considered a strike part of the normal course of doing business and not an act of God. The dispute could not be settled except through arbitration or litigation; they chose arbitration. The ICC appointed an arbitrator who heard both sides and ruled that the two parties would share proportionately in the loss. Both parties were satisfied with the arbitration decision, and costly litigation was avoided. Most arbitration is successful, but success depends on the willingness of both parties to accept the arbitrator's rulings.

Contracts and other legal documents should include clauses specifying the use of arbitration to settle disputes. Unless a provision for arbitration of any dispute is incorporated as part of a contract, the likelihood of securing agreement for arbitration after a dispute arises is reduced. A typical arbitration clause is as follows:

Any controversy or claim arising out of or relating to this contract shall be determined by arbitration in accordance with the International Arbitration Rules of the American Arbitration Association.

Including the number of arbitrators, the place of arbitration (city and/or country), and the language of the arbitration in the clause is also useful.⁹

Although an arbitration clause in a contract can avert problems, sometimes enforcing arbitration agreements can be difficult. Arbitration clauses require agreement on two counts: (1) The parties agree to arbitrate in the case of a dispute according to the rules and procedures of some arbitration tribunal and (2) they agree to abide by the awards resulting from the arbitration. Difficulty arises when the parties to a contract fail to honor the agreements. Companies may refuse to name arbitrators, refuse to arbitrate, or, after arbitration awards are made, refuse to honor the award. In most countries, arbitration clauses are recognized by the courts and are enforceable by law within those countries. More than 120 countries have ratified the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, also known as the New York Convention, which binds them to uphold foreign arbitration awards. Under the New York Convention, the courts of the signatory countries automatically uphold foreign arbitral awards issued in member countries. In addition to the New York Convention, the United States is a signatory of the Inter-American Convention on International Arbitration, to which many Latin American countries are party. The United States is also party to a number of bilateral agreements containing clauses providing for enforcement of arbitral awards. When all else fails, the final step to solve a dispute is litigation.

⁹The American Arbitration Association, www.iccwbo.org (select Arbitration).

Litigation Lawsuits in public courts are avoided for many reasons. Most observers of lawsuits between citizens of different countries believe that almost all victories are spurious because the cost, frustrating delays, and extended aggravation that these cases produce are more oppressive by far than any matter of comparable size. In India, for instance, there is a backlog of more than three million cases, and litigating a breach of contract between private parties can take a decade or more. The best advice is to seek a settlement, if possible, rather than sue. Other deterrents to **litigation** are the following:

- Fear of creating a poor image and damaging public relations.
- Fear of unfair treatment in a foreign court. (Fear that a lawsuit can result in unfair treatment, perhaps intentionally, is justifiable, because the decision could be made by either a jury or a judge not well versed in trade problems and the intricacies of international business transactions.)
- Difficulty in collecting a judgment that may otherwise have been collected in a mutually agreed settlement through arbitration.
- The relatively high cost and time required when bringing legal action. The Rheem Manufacturing Company, a billion-dollar manufacturer of heating and air conditioning systems, estimates that by using arbitration over litigation, it has reduced the time and cost of commercial-dispute resolution by half.
- Loss of confidentiality. Unlike arbitration and conciliation proceedings, which are confidential, litigation is public.

One authority suggests that the settlement of every dispute should follow four steps: First, try to placate the injured party; if this does not work, conciliate, arbitrate, and, finally, litigate. The final step is typically taken only when all other methods fail. Furthermore, in some cases, problem-solving approaches may be warranted within the context of even litigated disputes.¹⁰ This approach is probably wise whether one is involved in an international dispute or a domestic one.

Protection of Intellectual Property Rights: A Special Problem

LO4

The unique problems of protecting intellectual property rights internationally

Companies spend millions of dollars establishing brand names or trademarks to symbolize quality and design a host of other product features meant to entice customers to buy their brands to the exclusion of all others. Millions more are spent on research to develop products, processes, designs, and formulas that provide companies with advantages over their competitors. Such intellectual or industrial properties are among the more valuable assets a company may possess. Brand names such as Kodak, Coca-Cola, and Gucci; processes such as xerography; and computer software are invaluable. One financial group estimated that the Marlboro brand had a value of \$33 billion, Kellogg's \$9 billion, Microsoft \$9.8 billion, and Levi's \$5 billion; all have experienced infringement of their intellectual property rights. Normally, property rights can be legally protected to prevent other companies from infringing on such assets. Companies must, however, keep a constant vigil against piracy and counterfeiting. Moreover, with increasing frequency, companies are developing new technologies to prevent piracy, but counterfeiters are relentless in their criticism of and technological attacks on even the most sophisticated security measures.¹¹

Counterfeiting and Piracy

Counterfeit and pirated goods come from a wide range of industries—apparel, automotive parts, agricultural chemicals, pharmaceuticals, books (yes, even management books such as the one you are reading right now),¹² records, films, computer software, mobile

¹⁰Chang Zhang, David A. Griffith, and S. Tamer Cavusgil, "The Litigated Dissolution of International Distribution Relationships: A Process Framework and Propositions," *Journal of International Marketing* 14, no. 2 (2006), pp. 85–115.

¹¹Eric Schine, "Faking out the Fakers," *BusinessWeek*, June 4, 2007, pp. 75–79; Ethan Smith, "Napster Format Shift Would Enable More Players," *The Wall Street Journal*, January 7, 2008, p. B2.

¹²Don Lee, "Ripping Off Good Reads in China," *Los Angeles Times*, April 24, 2005, pp. C1, C10.

Exhibit 7.2**Piracy Rates for
Computer Software,
Top and Bottom 20**

Source: From 2010 BSA and IDC Global Software Piracy Study, Business Software Alliance. Reprinted with permission. Seventh Annual BSA/IDC Global Software Piracy Study (Washington, DC: Business Software Alliance, 2010), www.bsa.org/globalstudy. One hundred two countries and regions are ranked.

Highest Piracy Rates		Lowest Piracy Rates	
Georgia	95%	United States	20%
Zimbabwe	92	Japan	21
Bangladesh	91	Luxembourg	21
Moldova	91	New Zealand	22
Armenia	90	Australia	25
Yemen	90	Austria	25
Sri Lanka	89	Belgium	25
Azerbaijan	88	Finland	25
Libya	88	Sweden	25
Belarus	87	Switzerland	25
Venezuela	87	Denmark	26
Indonesia	86	United Kingdom	27
Vietnam	85	Germany	28
Ukraine	85	Netherlands	28
Iraq	85	Canada	29
Pakistan	84	Norway	29
Algeria	84	Israel	33
Cameroon	83	Ireland	35
Nigeria	83	Singapore	35
Paraguay	82	South Africa	35

phones,¹³ baby formula, auto parts, and even cars themselves.¹⁴ Estimates are that more than 10 million fake Swiss timepieces carrying famous brand names such as Cartier and Rolex are sold every year, netting illegal profits of at least \$500 million. Although difficult to pinpoint, lost sales from the unauthorized use of U.S. patents, trademarks, and copyrights amount to more than \$300 billion annually. That translates into more than two million lost jobs. Software, music, and movies are especially attractive targets for pirates because they are costly to develop but cheap to reproduce and distribute over the Internet. Pirated CD music sales are estimated to exceed \$5 billion annually and are growing at 6 percent per year. And unauthorized U.S. software that sells for \$500 in this country can be purchased for less than \$10 in East Asia. The Business Software Alliance, a trade group, estimates that software companies lost over \$16.5 billion in the Asia-Pacific region, \$16.4 billion in Europe, and \$9.4 billion in North America in 2009. Judging from the press on the topic, one might conclude that China is the biggest piracy problem. However, China has moved fast off the list of 20 worst piracy rates, according to Exhibit 7.2. At this writing, it ranks #27 and piracy has fallen to 79 percent, down from 92 percent just a few years earlier. Moreover, the dollars lost in the United States because of software piracy are the most in the world at \$8.4 billion, with China coming in a close second at \$7.6 billion. China's progress is due primarily to education programs, enforcement, and Microsoft's historic agreement with Lenovo. We also note that other populous nations have made major progress in reducing software piracy (e.g., Russia down 11, Brazil down 10, Japan and Vietnam both down 7 percent, India down 11 percent) between 2004 and 2009.¹⁵

Recent research implies that for companies like Microsoft, some level of piracy actually can serve the company. It can be seen as a kind of product trial that ultimately builds commitment. As updated versions of products become available, purchases may actually follow. Particularly as countries such as China begin to enforce WTO statutes on piracy, customers conditioned on pirated goods may indeed be willing and able to pay for the new versions.

¹³"Talk Is Cheap," *The Economist*, November 21, 2009, p. 68.

¹⁴Mark Landler, "Germans See Imitation in Chinese Cars," *The New York Times*, September 12, 2007, p. B3.

¹⁵*Sixth Annual BSA and IDC Global Software Piracy Study* (Washington, DC: Business Software Alliance, 2009), <http://www.bsa.org/globalstudy>; Howard W. French, "China Media Battle Hints at Shift on Intellectual Property," *The New York Times*, January 6, 2007, p. A3; Bruce Einhorn and Steve Hamm, "A Big Windows Cleanup, China Is Discovering that It Pays to Sell PCs that Contain Legitimate Microsoft Software," *BusinessWeek*, June 4, 2007, p. 80.

Although counterfeit CDs, toys, and similar products cost companies billions of dollars in lost revenue and have the potential of damaging the product's brand image, the counterfeiting of pharmaceuticals can do serious physical harm. In Colombia, investigators found an illegal operation making more than 20,000 counterfeit tablets a day of the flu drug *Dristan*, a generic aspirin known as *Dollex*, and *Ponstan 500*, a popular painkiller made by Pfizer. The counterfeited pills contained boric acid, cement, floor wax, talcum powder, and yellow paint with high lead levels, all used to replicate the genuine medications' appearance.

Counterfeit drugs range from copies that have the same efficacy as the original to those with few or no active ingredients to those made of harmful substances. A pharmaceutical manufacturers' association estimates that 2 percent of the \$327 billion worth of drugs sold each year are counterfeit, or about \$6 billion worth. In some African and Latin American nations, as much as 60 percent are counterfeit. The World Health Organization thinks 8 percent of the bulk drugs imported into the United States are counterfeit, unapproved, or substandard.

Another problem is collusion between the contract manufacturer and illegitimate sellers. In China, exact copies of New Balance shoes were fabricated by contract manufacturers who were New Balance suppliers. They flooded the market with genuine shoes that were sold for as little as \$20. Unilever discovered that one of its suppliers in Shanghai made excess cases of soap, which were sold directly to retailers. One of Procter & Gamble's Chinese suppliers sold empty P&G shampoo bottles to another company, which filled them with counterfeit shampoo. Counterfeiting and piracy of intellectual property constitute outright theft, but the possibility of legally losing the rights to intellectual property because of inadequate protection of property rights and/or a country's legal structure is another matter.

Finally, it should be mentioned that some critics argue that MNCs have pushed the current intellectual property regime too far in favor of the firms, particularly with the most recent WTO TRIPS Agreement, to be discussed in more detail subsequently.¹⁶ The critics suggest that the so-called tight rein the firms hold on the production of intellectual property has actually served to limit creativity and the associated benefits to the people that the intellectual property (IP) laws are intended to serve. Such arguments pitch antitrust laws against IP laws. The argument goes on.

Inadequate Protection

The failure to protect intellectual property rights adequately in the world marketplace can lead to the legal loss of rights in potentially profitable markets. Because patents, processes, trademarks, and copyrights are valuable in all countries, some companies have found their assets appropriated and profitably exploited in foreign countries without license or reimbursement.¹⁷ Furthermore, they often learn that not only are other firms producing and selling their products or using their trademarks, but the foreign companies are the rightful owners in the countries where they operate.

There have been many cases in which companies have legally lost the rights to trademarks and have had to buy back these rights or pay royalties for their use. The problems of inadequate protective measures taken by the owners of valuable assets stem from a variety of causes. One of the more frequent errors is assuming that because the company has established rights in the United States, they will be protected around the world or that rightful ownership can be established should the need arise. This assumption was the case with McDonald's in Japan, where enterprising Japanese registered its golden arches trademark. Only after a lengthy and costly legal action with a trip to the Japanese Supreme Court was McDonald's able to regain the exclusive right to use the trademark in Japan. After having to "buy" its trademark for an undisclosed amount, McDonald's maintains a very active program to protect its trademarks.

¹⁶Susan Sell, *Power and Ideas. North-South Politics of Intellectual Property and Antitrust* (Albany: State University of New York Press, 1998); Susan Sell, *Intellectual Property Rights: A Critical History* (Boulder, CO: Lynne Rienner Publishers, 2006).

¹⁷John Hagedoorn, Danielle Cloudt, and Hans van Kranenburg, "Intellectual Property Rights and the Governance of International R&D Partnerships," *Journal of International Business Studies* 36, no. 2 (2005), pp. 156-74.

Similarly, a South Korean company legally used the Coach brand on handbags and leather goods. The company registered the Coach trademark first and has the legal right to use that mark in Korea. The result is that a Coach-branded briefcase that is virtually identical to the U.S. product can be purchased for \$135 in South Korea versus \$320 in the United States. A U.S. attorney who practices with a South Korean firm noted that he has seen several instances in which a foreign company will come to Korea and naively start negotiating with a Korean company for distribution or licensing agreements, only to have the Korean company register the trademark in its own name. Later, the Korean company will use that registration as leverage in negotiations or, if the negotiations fall apart, sell the trademark back to the company. Many businesses fail to take proper steps to legally protect their intellectual property. They fail to understand that some countries do not follow the common-law principle that ownership is established by prior use or to realize that registration and legal ownership in one country does not necessarily mean ownership in another.

Prior Use versus Registration

In the United States, a common-law country, ownership of IP rights is established by **prior use**—whoever can establish first use is typically considered the rightful owner. In many code-law countries, however, ownership is established by **registration** rather than by prior use—the first to register a trademark or other property right is considered the rightful owner. For example, a trademark in Jordan belongs to whoever registers it first in Jordan. Thus you can find “McDonald’s” restaurants, “Microsoft” software, and “Safeway” groceries all legally belonging to Jordanians. After a lengthy court battle that went to the Spanish Supreme Court, Nike lost its right to use the “Nike” brand name for sports apparel in Spain. Cidesport of Spain had been using Nike for sports apparel since 1932 and sued to block Nike (U.S.) sportswear sales. Because Cidesport does not sell shoes under the Nike label, Nike (U.S.) will be able to continue selling its brand of sports shoes in Spain. A company that believes it can always establish ownership in another country by proving it used the trademark or brand name first is wrong and risks the loss of these assets.

Besides the first-to-register issue, companies may encounter other problems with registering. China has improved intellectual property rights protection substantially and generally recognizes “first to invent.” However, a Chinese company can capture the patent for a product invented elsewhere; it needs only to reverse-engineer or reproduce the product from published specifications and register it in China before the original inventor. Latvia and Lithuania permit duplicate registration of trademarks and brand names. A cosmetics maker registered Nivea and Niveja cosmetics brands in the former Soviet Union in 1986 and again in Latvia in 1992, but a Latvian firm had registered and had been selling a skin cream called Niveja since 1964. Neither the Soviet nor the Latvian authorities notified either firm. Applicants are responsible for informing themselves about similar trademarks that are already registered. The case is being taken to the Supreme Court of Latvia. It is best to protect IP rights through registration. Several international conventions provide for simultaneous registration in member countries.

International Conventions

Many countries participate in international conventions designed for mutual recognition and protection of intellectual property rights. There are three major international conventions:

1. The Paris Convention for the Protection of Industrial Property, commonly referred to as the Paris Convention, includes the United States and 100 other countries.
2. The Inter-American Convention includes most of the Latin American nations and the United States.
3. The Madrid Arrangement, which established the Bureau for International Registration of Trademarks, includes 26 European countries.

In addition, the World Intellectual Property Organization (WIPO) of the United Nations is responsible for the promotion of the protection of intellectual property and for the administration of the various multilateral treaties through cooperation among its member states.¹⁸

¹⁸Visit <http://www.wipo.org>, the home page of the WIPO, for detailed information on the various conventions and the activities of WIPO.

Furthermore, two multicountry patent arrangements have streamlined patent procedures in Europe. The first, the Patent Cooperation Treaty (PCT), facilitates the process for application for patents among its member countries. It provides comprehensive coverage, in that a single application filed in the United States supplies the interested party with an international search report on other patents to help evaluate whether or not to seek protection in each of the countries cooperating under the PCT. The second, the European Patent Convention (EPC), established a regional patent system allowing any nationality to file a single international application for a European patent. Companies have a choice between relying on national systems when they want to protect a trademark or patent in just a few member countries and applying for protection in all 27 member states. Trademark protection is valid for 10 years and is renewable; however, if the mark is not used within 5 years, protection is forfeited. Once the patent or trademark is approved, it has the same effect as a national patent or trademark in each individual country designated on the application.

The Trade-Related Aspects of Intellectual Property Rights (TRIPs) agreement, a major provision of the World Trade Organization, is the most comprehensive multilateral agreement on intellectual property to date. TRIPs sets standards of protection for a full range of intellectual property rights that are embodied in current international agreements. The three main provisions of the TRIPs agreement required that participating members be in compliance with minimum standards of protection by 2006, set procedures and remedies for the enforcement of IP rights, and made disputes between WTO members with respect to TRIPs obligations subject to the WTO's dispute settlement procedures.¹⁹

Once a trademark, patent, or other intellectual property right is registered, most countries require that these rights be used and properly policed. The United States is one of the few countries in which an individual can hold a patent without the patented entity being manufactured and sold throughout the duration of the patent period. Other countries feel that in exchange for the monopoly provided by a patent, the holder must share the product with the citizens of the country. Hence, if patents are not produced within a specified period, usually from one to five years (the average is three years), the patent reverts to public domain.

This rule is also true for trademarks; products bearing the registered mark must be sold within the country, or the company may forfeit its right to a particular trademark. McDonald's faced that problem in Venezuela. Even though the McDonald's trademark was properly registered in that code-law country, the company did not use it for more than two years. Under Venezuelan law, a trademark must be used within two years or it is lost. Thus, a Venezuelan-owned "Mr. McDonalds," with accompanying golden arches, is operating in Venezuela. The U.S. McDonald's Corporation faces a potentially costly legal battle if it decides to challenge the Venezuelan company.

Individual countries expect companies to actively police their intellectual property by bringing violators to court. Policing can be a difficult task, with success depending in large measure on the cooperation of the country within which the infringement or piracy takes place. A lack of cooperation in some countries may stem from cultural differences regarding how intellectual property is viewed. In the United States, the goal of protection of IP is to encourage invention and to protect and reward innovative businesses. In Korea, the attitude is that the thoughts of one person should benefit all. In Japan, the intent is to share technology rather than protect it; an invention should serve a larger, national goal, with the rapid spread of technology among competitors in a manner that promotes cooperation. In light of such attitudes, the lack of enthusiasm toward protecting intellectual property can be better understood. The United States is a strong advocate of protection, and at U.S. insistence, many countries are becoming more cooperative about policing cases of infringement and piracy. After decades of debate, European Union ministers agreed on a common continentwide system for patented inventions. Instead of being forced to submit an application in all EU countries' languages, inventors can submit only one, in English, French, or German. Finally, as the legal system evolves in China, authorities there have now begun enforcing local companies' patents at the expense of foreign firms.²⁰

¹⁹For a discussion of TRIPs, visit <http://www.wto.org> and select Intellectual Property.

²⁰"Battle of Ideas," *The Economist*, April 25, 2009, p. 68.

The three faces of piracy and/or reform, depending how you look at them. (1) American youths, particularly on college campuses, are protesting the current intellectual property laws and the associated enforcement tools. The fellow with the eyepatch was attending a seminar on the topic led by former Attorney General Alberto Gonzales.²¹ (2) Aside from the United States, the biggest piracy problem is China. Here Jackie Chan helps the Chinese government crack down, forecasting the probable path of IP piracy in China. That is, pirates have turned into policemen historically in the United States, Japan, and Taiwan as the production of intellectual property took off in each country.²² The same will happen in China during the next decade as artists, researchers, and entrepreneurs there produce new ideas worth protecting. (3) The HIV/AIDS epidemic is an economic and health catastrophe that many in sub-Saharan Africa and other developing countries²³ believe is exacerbated by drug companies' pricing policies and protection of intellectual property.²⁴ Here protestors march toward the U.S. embassy in Pretoria, South Africa.



Other Managerial Approaches to Protecting Intellectual Property

LOS

How to protect against piracy and counterfeiting

The traditional, but relatively feeble, remedies for American companies operating in countries such as China are several: (1) prevention, that is, engage local representation and diligently register IP with the appropriate agencies; (2) pursue negotiation and alternative dispute resolution; (3) complain to the Chinese authorities; and (4) complain to the U.S. government and World Trade Organization (WTO). Beyond these traditional strategies, research is now being conducted to better understand consumers' motivations with respect

²¹Lorenzo Munoz and Jon Healey, "Students Do Not Share Gonzales' View on Piracy," *Los Angeles Times*, April 29, 2005, pp. C1, C9.

²²N. Mark Lam and John L. Graham, *China Now, Doing Business in the World's Most Dynamic Market* (New York: McGraw-Hill, 2007).

²³Amelia Gentleman, "Battle Pits Patent Rights against Low-Cost Generic Drugs," *The New York Times*, January 30, 2007, p. C5; "Clinton, Drug Companies Strike Deal to Lower AIDS Drug Prices," *The Wall Street Journal*, May 8, 2007.

²⁴John E. Cook and Roger Bate, "Pharmaceuticals and the Worldwide HIV Epidemic: Can a Stakeholder Model Work?" *Journal of Public Policy & Marketing* 23, no. 2 (2004), pp. 140–52.

to counterfeit brands,²⁵ and creative thinkers of enterprise have come up with several new ideas that we briefly describe next.²⁶

Microsoft. Bill Gates's negotiation strategy with Chinese software pirates demonstrates his guile, prescience, and patience. He accidentally revealed his strategy in 1998 in an interview at the University of Washington:

Although about 3 million computers get sold every year in China, people don't pay for the software. Someday they will, though. And as long as they're going to steal it, we want them to steal ours. They'll get sort of addicted, and then we'll somehow figure out how to collect something in the next decade.

Well, it didn't take a decade for this marketing/product trial approach to work. On April 18, 2006, one day ahead of Chinese President Hu Jintao's arrival in Redmond, Washington, for dinner at Gates's home and on his way to a meeting with President George W. Bush, Gates inked a deal with Lenovo for \$1.2 billion of software to be included in the Chinese firm's computers.

Philips. One of the originators of "open innovation" is Philips Research in the Netherlands. Thirty years ago, it pioneered the concept of partnering²⁷ to develop and market new ideas. Open innovation for Philips also means that it buys ideas from R&D partners and sells ideas to marketing partners, rather than developing and marketing only its own ideas. One project exemplifies its innovative approach to developing and protecting intellectual property in China. The PHENIX Initiative was a commercial, industrial, and R&D project to develop mobile interactive digital services for the 2008 Olympics. Led by France Telecom, it involved financing and technology contributions from both European and Chinese corporations and governmental organizations.

Although many American firms have established design and R&D centers in China already, U.S. government restrictions on high-tech export and American executives' competitive angst prevent associations such as the PHENIX Initiative for U.S. firms in China. Thus, our arm's-length relationships in China limit both the amount of technology we develop and the degree of protection afforded it compared with European and Asian competitors. Moreover, our pleas for the Chinese government to "protect *our* intellectual property" sound exploitative to both the authorities and the public there.

Warner Bros. Finally, we suggest an excellent way for IP-rich firms to make money in China currently and in the near future, using the oldest pricing strategy of all: *Charge what the market will bear*. Even with the reluctant help of the Chinese authorities in enforcing the WTO/TRIPs agreement, Chinese consumers will continue the creative copying of foreign intellectual property until they are charged what they perceive as "reasonable" prices. Indeed, we applaud the recent heroic, albeit controversial, marketing strategies of Warner Bros. in China, which nearly halved the prices of its DVDs to \$1.88 and distributed the products within days of their release in theaters—earlier than anywhere else in the world.

This pricing approach is quite consistent with one we have long advocated, namely, adjusting prices on the basis of the comparative income levels in developing countries. That is, a fair price (from the Chinese point of view) would take into account the income and purchasing power differentials between consumers in the United States and China. For example, circa 2007, the ratio between U.S. and Chinese GDP per capita at purchase price parity was approximately \$40,000 to \$6,500. Adjusting the current U.S. price of about \$10 for a DVD on Amazon.com, a "reasonable" price to charge in China would be about \$1.50. And we particularly appreciate the tactical nuance of adding the \$.38 to achieve the very lucky price the Warner Bros. marketers are both charging and getting in China—\$1.88!

²⁵Keith Wilcox, Hyeong Min Kim, and Sankar Sen, "Why Do Consumers Buy Counterfeit Brands?" *Journal of Marketing Research* 46, no. 2 (2009), pp. 247–59.

²⁶See Lam and Graham, *China Now*, for more details.

²⁷"What's Mine Is Yours," *The Economist*, May 30, 2009, p. 80.

Warner Bros. is also trying to create a market for high-quality DVD rentals in a partnership with Union Voole Technology in China. Inexpensive video-on-demand systems price the multi-view rentals at less than \$1 and deliver via the Internet.²⁸

Cyberlaw: Unresolved Issues

LO6

The many issues of evolving cyberlaw

The Internet is by its nature a global enterprise for which no political or national boundaries exist. Although this global reach is its strength, it also creates problems when existing laws do not clearly address the uniqueness of the Internet and its related activities. Existing law is vague or does not completely cover such issues as gambling, the protection of domain names, taxes, jurisdiction in cross-border transactions, contractual issues, piracy²⁹ (as discussed in the last section), and censorship. The very public dispute between Google and the government of China during 2010 is an important example of the last issue.³⁰ The European Union, the United States, and many other countries are drafting legislation to address the myriad legal questions not clearly addressed by current law. But until these laws apply worldwide, companies will have to rely on individual-country laws, which may or may not provide protection.³¹ When you add together the unprecedented dynamism of the cyber industry to a fledgling legal system as in China, you end up with a rather wild regulatory environment. China is currently trying to monitor and censor text messaging.³² But perhaps the most interesting battle brewing in the Chinese bureaucracy is over which ministry will regulate the online version of *World of Warcraft*, the most popular such game in the country.³³ The General Administration of Press and Publication and the Ministry of Culture are the two combatants in this interesting game, and it's a certainty that Blizzard Entertainment hopes they do not reach an agreement to share the control over the Chinese operations of the company.

Domain Names and Cybersquatters

Unfortunately, the ease with which Web names can be registered and the low cost of registering has led to thousands being registered. **Cybersquatters (CSQs)** buy and register descriptive nouns, geographic names, names of ethnic groups and pharmaceutical substances, and other similar descriptors and hold them until they can be sold at an inflated price. For example, a cybersquatter sold "www.themortgage.com" for \$500,000; the record price paid so far is \$7.5 million for the domain name "www.business.com." If a cybersquatter has registered a generic domain name that a company wants, the only recourse is to buy it.

Another ploy of CSQs is to register familiar names and known trademarks that divert traffic from intended destinations or to sell competing products. eBay, the world's largest online auction house, was embroiled in a dispute with an entrepreneur in Nova Scotia who registered "www.ebay.ca," thus forcing the U.S. company to use "www.ca.ebay.com" for its newly launched Canadian Web site until it was successful in regaining the use of "www.ebay.ca"; both Web addresses now go to the same site.

Cybersquatters register a well-known brand or trademark that misdirects a person to the CSQ's site or to a competing company's site. For example, an adult entertainment Web site registered "www.candyland.com." Hasbro, the toy company, markets a game for children called "Candy Land." Disturbed by the thought that customers might end up at an adult entertainment site, Hasbro wanted to have the site vacated. It had the option of suing to have it removed or buying the domain name. Hasbro elected to sue, and though the adult Web site was not directly infringing on its trademark, the courts deemed it to be damaging to the reputation of Hasbro and its children's game. The Web address now takes you directly to a Hasbro site.

²⁸Dawn C. Chmielewski, "Warner Takes New Tack against Piracy," *Los Angeles Times*, November 4, 2008, pp. C1, C6.

²⁹"The Spider and the Web," *The Economist*, August 29, 2009, p. 49.

³⁰"Google and China, Flower for a Funeral," *The Economist*, January 16, 2010, pp. 41–42.

³¹Jefferson Graham, "File-Sharing Beat Goes On," *USA Today*, June 29, 2005, p. 3B.

³²Sharon LaFraniere, "China to Scan Text Messages to Spot 'Unhealthy Content,'" *The New York Times*, January 20, 2010, p. A5.

³³Michael Wines, "Online Warfare Prompts an Offline Clash in China," *The New York Times*, November 7, 2009, p. A4.



Potential customers visit a Microsoft booth in Beijing. When Chinese bloggers use Microsoft's service to post messages and type in such terms as "democracy," "capitalism," "liberty," or "human rights," they get a yellow light and a computer warning: "This message includes forbidden language. Please delete the prohibited expression." Microsoft has agreed to this sort of censorship, explaining that it is just following local laws and that the company still provides a most useful service to its Chinese clients. The critics disagree. The argument goes on.

Other cybersquatting abuses that can pose a serious threat to business include parody sites, protest sites, and hate sites. A good example is "www.walmartsucks.org," a site highly critical of Walmart. This type of Web site may be difficult to prevent because the right to free speech is protected. The only defense Walmart might have is to challenge the Web site's right to use a trade name to direct someone to the site.

It is easy to imagine many situations in which the actions of companies or information posted on a site can lead to a lawsuit when Internet content is unlawful in one country but not in the host country. For example, an American studio that makes a movie with nude scenes could be prosecuted in a country that bans nudity in movies. Not only would the movie studio be liable, but the Internet service provider could be liable for material posted on its Web site. Writers and publishers could face libel suits in countries with laws restrictive of free speech, where weak or nonexistent free speech protections are tools to intimidate and censor.³⁴ Internet publishers or individual Web site owners fear they can be sued for defamation from any or many jurisdictions, merely because their articles can be downloaded anywhere in the world. Lawsuits involving libel, defamation, and product liability cause companies to voluntarily restrict their Web sites to selected countries rather than leave themselves open to legal action. The Internet is not a libel-free zone.

Most country's courts are inclined to assert jurisdiction over online activity, wherever it originates, so long as harm is experienced locally and the sense is that the party responsible either knew or ought to have known that the harm was a likely consequence of its actions. Most agree, though, that laws that are expressly designed to apply not just in a single country but worldwide are necessary to untangle the legal hassles that are occurring.

Of 100 business leaders polled by the International Chamber of Commerce, more than one-third said legal uncertainty covering Internet operations affected "significant business decisions." The most immediate impact, according to the ICC, is clear: Many online merchants refuse to sell outside their home countries.

Taxes Another thorny issue in e-commerce concerns the collection of taxes. A typical tax system relies on knowing where a particular economic activity is located. But the Internet enables individual workers to operate in many different countries while sitting at the same desk. When taxes should be collected, where they should be collected, and by whom are all issues under consideration by countries around the world. In the past, a company was deemed to have a taxable presence in a country if it had a permanent establishment there. But whether the existence of a server or a Web site qualifies as such a presence is not clear. One proposal that has enthusiastic support from tax authorities is for servers to be designated as "virtual permanent establishments" and thus subject to local taxes.

To pinpoint when and where a sale takes place in cyberspace is difficult, and unless elusive taxpayers can be pinpointed, any tax may be difficult to collect. In "brick-and-mortar" sales, the retailer collects, but when the Internet site is in one country and the customer is in another, who collects? One proposal is to have shipping companies such as FedEx or credit card companies collect—obviously, neither party is receiving this suggestion enthusiastically.

The EU Commission has announced plans for a directive to force foreign companies to levy value-added tax (VAT) on services delivered via the Internet, television, or radio to customers in the European Union. Foreign companies with sales via the Internet of over €100,000 (~\$125,000) inside the European Union would have to register in at least one EU

³⁴Mark Magnier and Joseph Menn, "As China Censors the Internet, Money Talks," *Los Angeles Times*, June 17, 2005, pp. A1, A14.

country and levy VAT at that country's rate, somewhere between 15 percent and 25 percent. The tax is justified on the basis of leveling the playing field. That is, EU companies have to charge their EU customers VAT, whereas foreign companies supplying the same service to the same customers are duty free. However, U.S. companies are protesting, calling the proposal "e-protectionism." Although the EU plan is only a proposal now, as the value of Internet transactions increases, the taxman will sooner or later get his share.³⁵ Perhaps the most egregious example of strange Internet taxing comes from France. The Ministry of Culture there proposed a tax on online advertising revenues, aimed at American firms such as Google, Microsoft, AOL, Yahoo!, and Facebook, to pay for new subsidies for the French music, movie, and publishing industries.³⁶

Jurisdiction of Disputes and Validity of Contracts

As countries realize that existing laws relating to commerce do not always clearly address the uniqueness of the Internet and its related activities, a body of cyberlaw is gradually being created. Two of the most troubling areas are determining whose laws will prevail in legal disputes between parties located in different countries and establishing the contractual validity of electronic communications. The European Union is having the most difficulty in reconciling the vast differences in the laws among its member states to create a uniform law. For example, a draft regulation debated in Brussels and other European capitals would have required vendors to comply with 27 different, and sometimes bizarre, sets of national rules on consumer protection—ranging from dozens of restrictions on advertising to France's requirement that all contracts must be concluded in French, regardless of whether businesses intend to sell goods for export to France.

The EU Commission has adopted an e-commerce directive that will permit online retailers to trade by the rules of their home country unless the seller had enticed or approached the consumer by way of advertising. Then, any legal action is to take place in the consumer's country of residence. The rationale is that if a company actively seeks customers in a given country, it ought to be willing to abide by that country's consumer protection laws. Whether the directive will be accepted by all 27 member states is still problematic.

The European Commission has begun to review the entire regulatory framework for the technological infrastructure of the information society. The commission is working on various pieces of legislation intended to place electronic commerce on an equal footing with conventional commerce. One of the first steps was to introduce an EU-wide computer network dubbed EEJ net that provides an easy way to resolve small-scale disputes out of court. Problems over deliveries, defective products, or products that do not fit their description can be dealt with by a single one-stop national contact point, or clearinghouse, in each member state. The consumer will be able to find information and support in making a claim to the out-of-court dispute resolution system in the country where the product supplier is based.

Establishing the validity of contractual law for e-commerce is making substantial progress also. India, for example, recently passed a law that recognizes e-mail as a valid form of communication, electronic contracts as legal and enforceable, and digital signatures as binding. Several countries are preparing, or have passed, legislation similar to the United Kingdom's that allows digital signatures to be used in the creation of online contracts that are as legally binding as any paper-based original document.

Commercial Law within Countries

LO7

The legal differences between countries and how those differences can affect international marketing plans

When doing business in more than one country, a marketer must remain alert to the different legal systems. This problem is especially troublesome for the marketer who formulates a common marketing plan to be implemented in several countries. Although differences in languages and customs may be accommodated, legal differences between countries may still present problems for a marketing program.

³⁵For a report on a resolution on cross-border tax issues proposed by the OECD, see "OECD Launches Project on Improving the Resolution of Cross-Border Tax Disputes," <http://www.oecd.org>, and select Taxation. The OECD proposes a variety of issues related to the Internet, all of which can be found at this site.

³⁶"France and the Internet, Helicopters at the Ready," *The Economist*, January 16, 2010, pp. 63–64.

Marketing Laws

All countries have laws regulating marketing activities in promotion, product development, labeling, pricing, and channels of distribution. Usually the discrepancies across markets cause problems for trade negotiators, particularly for managers and their firms. For example, the United States does not allow the buying or selling of human organs,³⁷ and it restricts the use of human stem cells in medical research to develop treatments for a variety of diseases.³⁸ Other nations have different laws.³⁹ The ethics of both issues are quite controversial, and adding an international dimension just complicates things even more. In the case of the current international trade in human organs, Europeans can legally travel to foreign countries for transplants. However, the European Union Parliament is considering making it a criminal offense to do so. Meanwhile, the U.S. government is considering relaxing laws regulating stem cell research as scientists in other nations, unfettered by similar restrictions, are making important advances in the field.

Some countries may have only a few marketing laws with lax enforcement; others may have detailed, complicated rules to follow that are stringently enforced. For example, Sweden banned all television advertising to children in 1991. Greece, Norway, Denmark, Austria, and the Netherlands all restrict advertising directed at children. Recently, the European Commission threatened to restrict all advertising of soft drinks and snack foods to children, and PepsiCo volunteered to curb its advertising to kids in response.⁴⁰ At the same time, the American food industry is arguing against such actions in the United States. It is interesting to note that the U.S. Federal Trade Commission and the sugared food and toy manufacturers went down a similar path toward restricting advertising to children in the late 1970s. The industry made a few minor concessions at the time but began ignoring previous commitments during the 1980s. All these developments will be interesting to follow as childhood obesity continues to be a major public health issue in all affluent countries.

There often are vast differences in enforcement and interpretation among countries with laws that cover the same activities. Laws governing sales promotions in the European Union offer good examples of such diversity. In Austria, premium offers, free gifts, or coupons are considered cash discounts and are prohibited. Premium offers in Finland are allowed with considerable scope as long as the word *free* is not used and consumers are not coerced into buying products. France also regulates premium offers, which are, for all practical purposes, illegal there because selling for less than cost or offering a customer a gift or premium conditional on the purchase of another product is illegal. French law does permit sales twice a year, in January and August, which can legally last four to six weeks. This event is so popular that it is advertised on radio and TV, and special police are even required to control the crowds. One poll indicated that over 40 percent of the French set aside money during the year for sale time, and 56 percent will spend less money on essentials to buy things on sale. The good news here is that many of these restrictions on marketing activities are being softened. Most recently, holiday sales⁴¹ and longer store hours⁴² are being allowed in several European countries. China has relaxed some of its restrictions on direct marketing that particularly affected companies such as Mary Kay.⁴³

The various product comparison laws, a natural and effective means of expression, are another major stumbling block. In Germany, comparisons in advertisements are always subject to the competitor's right to go to the courts and ask for proof of any implied or stated superiority. In Canada, the rulings are even more stringent: All claims and statements

³⁷Nancy Scheper-Hughes, "Organs without Borders," *Foreign Policy*, January/February 2005, pp. 26–27.

³⁸Robert L. Paarlberg, "The Great Stem Cell Race," *Foreign Policy*, May/June 2005, pp. 44–51.

³⁹Amelia Gentleman, "Transplant Scheme Preys on Poor Indians," *International Herald Tribune*, January 30, 2008, p. 2.

⁴⁰Andrew Ward and Jeremy Grant, "PepsiCo Says It Has Curbed Advertising to Children," *Financial Times*, February 28, 2005, <http://www.ft.com>.

⁴¹Cecilie Rohwedder, "Achtung Christmas Shoppers!" *The Wall Street Journal*, December 24, 2007, pp. B1, B2.

⁴²Marcus Walker, "Longer Store Hours in Germany," *The Wall Street Journal*, January 8, 2007, p. A5.

⁴³Katherine Yung, "Mary Kay Sales Plans Get Beijing Blessing," *Dallas Morning News*, December 5, 2006, pp. D1, D7.



Laws regarding healthcare marketing differ substantially around the world. In Mexico, prescriptions often are not required for powerful drugs. At this farmacia in the Cancun airport, tourists can buy the pictured antibiotic over the counter at bargain prices. Quality is an issue, but availability is not. In the Philippines and other developing countries, you can buy yourself a kidney on the black market—the global price is around \$2,000. However, U.S. laws prohibit the buying and selling of human organs. In South Korea, the government supports stem cell research that is restricted in the United States by federal laws.



must be examined to ensure that any representation to the public is not false or misleading. Such representation cannot be made verbally in selling or be contained in or on anything that comes to the attention of the public (such as product labels, inserts in products, or any other form of advertising, including what may be expressed in a sales letter). Courts have been directed by Canadian law to take into account, in determining whether a representation is false or misleading, the “general impression” conveyed by the representation as well as its literal meaning.⁴⁴ The courts are expected to apply the “credulous person standard,” which means that if any reasonable person could possibly misunderstand the representation, the representation is misleading. In essence, puffery, an acceptable practice in the United States, could be interpreted in Canada as false and misleading advertising. Thus, a statement such as “the strongest drive shaft in Canada” would be judged misleading unless the advertiser had absolute evidence that the drive shaft was stronger than any other drive shaft for sale in Canada.

China is experimenting with a variety of laws to control how foreign companies do business, and some of those experiments have gone well, but some badly. Some regulations are being relaxed, such as those controlling foreign advertising companies. Even so, censorship of advertising and program content⁴⁵ are constant concerns. Televised ads for “offensive” products such as feminine hygiene pads, hemorrhoid medications, and even athlete’s food ointment are not allowed during the three daily mealtimes.⁴⁶ The Chinese authorities banned a LeBron James Nike TV ad because it “violates regulations that mandate all advertisements in China should uphold national dignity and interest and respect the motherland’s culture.”⁴⁷ Apparently LeBron battling a kung fu master isn’t appropriate in the land of Confucius. Also, magazines have been ordered to use a direct translation of the often-obscure name that appears on their license or use no English name at all. Thus, *Cosmopolitan* would become “Trends Lady,” *Woman’s Day* would become “Friends of Health,” and *Esquire* would become “Trends Man.” The movie *Avatar* also competed for Chinese screens with a government-sponsored film about the life of Confucius; at least temporarily, *Avatar* was allowed to show only on 3D screens, thus allowing Confucius the “appropriate” screen time.⁴⁸ A Guns N’ Roses album was banned in the country for its objectionable title, Chinese Democracy.⁴⁹ Such diversity of laws among countries extends to advertising, pricing, sales agreements, and other commercial activities. Indeed, studies suggest that governmental policies affect marketing success in a variety of ways⁵⁰ including actually forestalling some firms from taking a marketing orientation in their operations.⁵¹

There is some hope that the European Union will soon have a common commercial code. One step in that direction is the proposal to harmonize the pan-European regulation of promotions based on the conservative laws that cover promotions in Germany, Austria, and Belgium. However, this proposal is meeting with strong resistance from several groups because of its complex restrictions.⁵² Meanwhile, others push for even broader-based

⁴⁴Richard W. Pollay, “Considering the Evidence, No Wonder the Court Endorses Canada’s Restrictions on Cigarette Advertising,” *Journal of Public Policy & Marketing* 23, no. 1 (2004), pp. 80–88.

⁴⁵“Bond in Beijing,” *The Wall Street Journal*, January 31, 2007, p. A12; Don Lee and Jim Puzanghera, “China Closing Curtains on U.S. Movies,” *Los Angeles Times*, December 12, 2007, pp. C1, C4; Geoffrey A. Fowler, “Online-Video Firms Brace as China Tightens Rules,” *The Wall Street Journal*, January 4, 2008.

⁴⁶Geoffrey A. Fowler, “China Cracks Down on Commercials,” *The Wall Street Journal*, February 19, 2004, p. B7.

⁴⁷“China Bans Nike’s LeBron Commercial,” *Associated Press*, December 6, 2004.

⁴⁸Ben Fritz and David Pierson, “Chinese Pull an ‘Avatar’ Switch,” *Los Angeles Times*, January 19, 2010, p. B6.

⁴⁹James T. Areddy, “Guns N’ Roses New Album Is Up Against a Chinese Wall,” *The Wall Street Journal*, November 22, 2008, online.

⁵⁰Stefan Stremersch and Aurelie Lemmens, “Sales Growth of New Pharmaceuticals across the Globe: The Role of Regulatory Regimes,” *Marketing Science* 28, no. 4 (2009), pp. 690–708.

⁵¹Rilian Qu and Christine T. Ennew, “Developing a Market Orientation in a Transitional Economy: The Role of Government Regulation and Ownership Structure,” *Journal of Public Policy & Marketing* 24, no. 1 (2005), pp. 82–89.

⁵²“EU Sets Cap on TV Ads and Product Placement,” *International Herald Tribune*, November 14, 2006, p. 16.



A Greenpeace protester peers out from inside a plastic rubbish bin in Hong Kong, where activists were calling on the government to develop a comprehensive recycling industry that they claim will create 2,000 new jobs. A study by Greenpeace found that only 148 out of 18,200 rubbish bins in Hong Kong have waste separation compartments. It called on the government to revamp its current waste management procedures to facilitate a comprehensive system to reduce, recover, and recycle.

harmonization of marketing regulations involving the United States, United Nations, and the WTO.

Although the European Union may sometimes appear a beautiful picture of economic cooperation, there is still the reality of dealing with 27 different countries, cultures, and languages, as well as 27 different legal systems. Even though some of Germany's complicated trade laws were revoked in 2000, groups such as the Center for Combating Unfair Competition, an industry-financed organization, continue to work to maintain the status quo. Before the German law was revoked, the Center's lawyers filed 1,000 lawsuits a year, going after, for example, a grocery store that offered discount coupons or a deli that gave a free cup of coffee to a customer who had already bought 10; its efforts will surely continue.

Although the goal of full integration and a common commercial code has not been totally achieved in the European Union, decisions by the European Court continue to strike down individual-country laws that impede competition across borders. In a recent decision, the European Court ruled that a French cosmetics company could sell its wares by mail in Germany and advertise them at a markdown from their original prices, a direct contradiction of German law. As the Single European Market Act is implemented, many of the legal and trade differences that have existed for decades will vanish. Surprisingly enough, standards set by the European Union for food, software, cars, and other items affect U.S. product standards as well. In many cases, the reconciliation of so many different consumer protection standards that existed in European countries prior to the European Union resulted in rules more rigorous than those for many U.S. products. Consequently, many U.S. products have had to be redesigned to comply with European standards. For example, Carrier air conditioners have been redesigned to comply with European recycling rules; Microsoft has modified contracts with software makers; Internet service providers give consumers a wider choice of technologies; and McDonald's has ceased including soft plastic toys with its Happy Meals and has withdrawn all genetically engineered potatoes from its restaurants worldwide. All this change is because of the need to reconcile U.S. standards with those of the European Union.

Green Marketing Legislation

Multinational corporations also face a growing variety of legislation designed to address environmental issues. Global concern for the environment extends beyond industrial pollution, hazardous waste disposal, and rampant deforestation to include issues that focus directly on consumer products. Green marketing laws focus on environmentally friendly products and product packaging and its effect on solid waste management.

Germany has passed the most stringent green marketing laws that regulate the management and recycling of packaging waste. The new packaging laws were introduced in three phases. The first phase required all transport packaging, such as crates, drums, pallets, and Styrofoam containers, to be accepted back by the manufacturers and distributors for recycling. The second phase required manufacturers, distributors, and retailers to accept all returned secondary packaging, including corrugated boxes, blister packs, packaging designed to prevent theft, packaging for vending machine applications, and packaging for promotional purposes. The third phase requires all retailers, distributors, and manufacturers to accept returned sales packaging, including cans, plastic containers for dairy products, foil wrapping, Styrofoam packages, and folding cartons such as cereal boxes. The requirement for retailers to take back sales packaging has been suspended as long as the voluntary green dot program remains a viable substitute. A green dot on a package identifies manufacturers that have agreed to ensure a regular collection of used packaging materials directly from the consumer's home or from designated local collection points.

Reclaiming recyclables extends beyond packaging to automobiles. Since 2006, manufacturers based in European Union nations must take back any cars they produced that no

longer have resale value and pay for proper disposal. Similarly, 85 percent of a scrapped car's material must be recovered for future use.

Many European countries also have devised schemes to identify products that comply with certain criteria that make them more environmentally friendly than similar products. Products that meet these criteria are awarded an "ecolabel" that the manufacturer can display on packaging to signal to customers that it is an environmentally friendly product. The European Union is becoming more aggressive in issuing new directives and in harmonizing ecolabeling and other environmental laws across all member states. Ecolabeling and EU packaging laws are discussed in more detail in the chapter on consumer products (Chapter 13).⁵³

Foreign Countries' Antitrust Laws

With the exception of the United States, antitrust laws were either nonexistent or not enforced in most of the world's countries for the better part of the twentieth century. However, the European Union,⁵⁴ Japan, and many other countries have begun to actively enforce their antitrust laws, patterned after those in the United States. Antimonopoly, price discrimination, supply restrictions, and full-line forcing are areas in which the European Court of Justice has dealt severe penalties. For example, before Procter & Gamble was allowed to buy VP-Schickedanz AG, a German hygiene products company, it had to agree to sell off one of the German company's divisions that produced Camelia, a brand of sanitary napkins. Because P&G already marketed a brand of sanitary napkins in Europe, the commission was concerned that allowing P&G to keep Camelia would give the company a controlling 60 percent of the German sanitary products market and 81 percent of Spain's. More recently, the European Union fined Intel \$1.45 billion for monopolistic abuses in its marketing in Europe. In addition, the firm must make mandated adjustments in its marketing practices and operations.⁵⁵

The United States also intervenes when non-U.S. companies attempt to acquire American companies. Nestlé's proposed \$2.8 billion acquisition of Dreyer's Grand Ice Cream hit a roadblock as U.S. antitrust officials opposed the deal on grounds that it would lead to less competition and higher prices for gourmet ice cream in the United States. At times, companies are subject to antitrust charges in more than one country. Microsoft had a partial victory against antitrust charges brought in the United States, only to face similar anticompetitive charges against Microsoft's Windows operating system in the European Union. The probe is based on possible competitive benefits to European software concerns if legal limits were placed on Microsoft. American companies have faced antitrust violations since the trust-busting days of President Theodore Roosevelt but much less so in other parts of the world. Enforcement of antitrust in Europe was almost nonexistent until the early stages of the European Union established antitrust legislation. And, now China is getting into the game. The Anti-Monopoly Bureau of the Ministry of Commerce considered its first such case and eventually approved the Anheuser-Busch/InBev merger.⁵⁶

U.S. Laws Apply in Host Countries All governments are concerned with protecting their political and economic interests domestically and internationally; any activity or action, wherever it occurs, that adversely threatens national interests is subject to government control. Leaving

LO8

The different ways U.S. laws can be applied to U.S. companies operating outside the United States

⁵³For information on the EU's environmental directives, as well as other information about the European Union, visit <http://www.europa.eu.int>. This address will take you to the home page, where you can search for topics and visit various information sources about the European Union.

⁵⁴Charles Forelle, "Microsoft Yields in EU Antitrust Battle," *The Wall Street Journal*, October 23, 2007; Charles Forelle, "EU Probes Pharmaceutical Industry on Dwindling New Patents, Drugs," *The Wall Street Journal*, January 16, 2008.

⁵⁵Charles Forelle and Don Clark, "Intel Fine Jolts Tech Firm," *The Wall Street Journal*, May 14, 2009, pp. A1, A14.

⁵⁶"InBev-Anheuser-Busch: China's First Public Merger Decision Under the AML," *Vendex Legal Summaries* Q4 (2008), pp. 1-3.

the political boundaries of a home country does not exempt a business from home-country laws. Regardless of the nation where business is done, a U.S. citizen is subject to certain laws of the United States. What is illegal for an American business at home can also be illegal by U.S. law in foreign jurisdictions for the firm, its subsidiaries, and licensees of U.S. technology.

Laws that prohibit taking a bribe, trading with the enemy, participating in a commercial venture that negatively affects the U.S. economy, participating in an unauthorized boycott such as the Arab boycott, or any other activity deemed to be against the best interests of the United States apply to U.S. businesses and their subsidiaries and licensees regardless of where they operate. Thus, at any given time a U.S. citizen in a foreign country must look not only at the laws of the host country but at home law as well.

The question of jurisdiction of U.S. law over acts committed outside the territorial limits of the country has been settled by the courts through application of a long-established principle of international law, the “objective theory of jurisdiction.” This concept holds that even if an act is committed outside the territorial jurisdiction of U.S. courts, those courts can nevertheless have jurisdiction if the act produces effects within the home country. The only possible exception may be when the violation is the result of enforced compliance with local law.

Foreign Corrupt Practices Act

Recall from Chapter 5 that the Foreign Corrupt Practices Act (FCPA) makes it illegal for companies to pay bribes to foreign officials, candidates, or political parties. Stiff penalties can be assessed against company officials, directors, employees, or agents found guilty of paying a bribe or of knowingly participating in or authorizing the payment of a bribe. However, also recall that bribery, which can range from lubrication to extortion, is a common business custom in many countries, even though illegal.⁵⁷

The original FCPA lacked clarity, and early interpretations were extremely narrow and confusing. Subsequent amendments in the Omnibus Trade and Competitiveness Act clarified two of the most troubling issues. Corporate officers’ liability was changed from having *reason to know* that illegal payments were made to *knowing* of or authorizing illegal payments. In addition, if it is customary in the culture, small (grease or lubrication) payments made to encourage officials to complete routine government actions such as processing papers, stamping visas, and scheduling inspections are not illegal *per se*.

The debate continues as to whether the FCPA puts U.S. businesses at a disadvantage. Some argue that U.S. businesses are at a disadvantage in international business transactions in those cases in which bribery payments are customary, whereas others contend that it has little effect and, indeed, that it helps companies to “just say no.” The truth probably lies somewhere in between. The consensus is that most U.S. firms are operating within the law, and several studies indicate that the FCPA has not been as detrimental to MNCs’ interests as originally feared, because exports to developed and developing countries continue to be favorable.

Although U.S. firms seem able to compete and survive without resorting to corruption in the most corrupt societies, it does not mean that violations do not occur or that companies are not penalized for violations. For example, a U.S. environmental engineering firm was found to have made corrupt payments to an Egyptian government official to assist the company in gaining a contract. The company agreed not to violate the FCPA in the future, to pay a civil fine of \$400,000, and to reimburse the Department of Justice for the costs of the investigation. Furthermore, the company agreed to establish FCPA compliance procedures and to provide certifications of compliance annually for five years. Other firms have paid even larger fines in recent years, and the Justice Department has agreed not to prosecute firms with “excellent” training programs in place.

⁵⁷For discussions of the FCPA, updates, and other information, visit the FCPA home page at <http://www.usdoj.gov/criminal/fraud/fcpa.html>.

CROSSING BORDERS 7.2

The Kind of Correspondence an International Marketer Doesn't Want to See

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DPC (TIANJIN) LTD. CHARGED WITH VIOLATING THE FOREIGN CORRUPT PRACTICES ACT

WASHINGTON, D.C.—Acting Assistant Attorney General John C. Richter of the Criminal Division today announced the filing of a one-count criminal information charging DPC (Tianjin) Co. Ltd.—the Chinese subsidiary of Los Angeles-based Diagnostic Products Corporation (DPC)—with violating the Foreign Corrupt Practices Act of 1977 (FCPA) in connection with the payment of approximately \$1.6 million in bribes in the form of illegal “commissions” to physicians and laboratory personnel employed by government-owned hospitals in the People’s Republic of China.

The company, a producer and seller of diagnostic medical equipment, has agreed to plead guilty to the charge, adopt internal compliance measures, and cooperate with ongoing criminal and SEC civil investigations. An independent compliance expert will be chosen to audit the company’s compliance program and monitor its implementation of new internal policies and procedures. DPC Tianjin has also agreed to pay a criminal penalty of \$2 million.

The bribes were allegedly paid from late 1991 through December 2002 for the purpose and effect of obtaining and retaining business with these hospitals. According to the criminal information and a statement of facts filed in court, DPC Tianjin made cash payments to laboratory personnel and physicians employed in certain hospitals in the People’s Republic of

China in exchange for agreements that the hospitals would obtain DPC Tianjin’s products and services. This practice, authorized by DPC Tianjin’s general manager, involved personnel who were employed by hospitals owned by the legal authorities in the People’s Republic of China and, thus, “foreign officials” as defined by the FCPA.

In most cases, the bribes were paid in cash and hand-delivered by DPC Tianjin salespeople to the person who controlled purchasing decisions for the particular hospital department. DPC Tianjin recorded the payments on its books and records as “selling expenses.” DPC Tianjin’s general manager regularly prepared and submitted to Diagnostic Products Corporation its financial statements, which contained its sales expenses. The general manager also caused approval of the budgets for sales expenses of DPC Tianjin, including the amounts DPC Tianjin intended to pay to the officials of the hospitals in the following quarter or year.

The “commissions,” typically between 3 percent and 10 percent of sales, totaled approximately \$1,623,326 from late 1991 through December 2002, and allowed Depu to earn approximately \$2 million in profits from the sales.

DPC Tianjin’s parent company, Diagnostic Products Corporation, is the subject of an FCPA enforcement proceeding filed earlier today by the U.S. Securities and Exchange Commission. The SEC ordered the company to cease and desist from violating the FCPA and to disgorge approximately \$2.8 million in ill-gotten gains, representing its net profit in the People’s Republic of China for the period of its misconduct plus prejudgment interest ...

U.S. Antitrust Laws that Apply in Foreign Markets

Antitrust enforcement has two purposes in international commerce. The first is to protect American consumers by ensuring that they benefit from products and ideas produced by foreign competitors as well as by domestic competitors. Competition from foreign producers is important when imports are, or could be, a major source of a product or when a single firm dominates a domestic industry. This issue becomes relevant in many joint ventures, particularly if the joint venture creates a situation in which a U.S. firm entering a joint venture with a foreign competitor restricts competition for the U.S. parent in the U.S. market.

The second purpose of antitrust legislation is to protect American export and investment opportunities against any privately imposed restrictions. The concern is that all U.S.-based firms engaged in the export of goods, services, or capital should be allowed to compete on merit and not be shut out by restrictions imposed by bigger or less principled competitors.

The questions of jurisdiction and how U.S. antitrust laws apply are frequently asked but only vaguely answered. The basis for determination ultimately rests with the interpretation of Sections I and II of the Sherman Act. Section I states that “every contract, combination . . . or conspiracy in restraint of trade or commerce among the several states or with foreign nations is hereby declared to be illegal.” Section II makes it a violation to “monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several states, or with foreign nations.”

The Justice Department recognizes that application of U.S. antitrust laws to overseas activities raises some difficult questions of jurisdiction. It also recognizes that U.S. antitrust-law enforcement should not interfere unnecessarily with the sovereign interest of a foreign nation. At the same time, however, the Antitrust Division is committed to controlling foreign transactions at home or abroad that have a substantial and foreseeable effect on U.S. commerce. When such business practices occur, there is no question in the Antitrust Division of the Department of Justice that U.S. laws apply.

Antiboycott Law

Under the antiboycott law,⁵⁸ U.S. companies are forbidden to participate in any unauthorized foreign boycott; furthermore, they are required to report any request to cooperate with a boycott. The antiboycott law was a response to the Arab League boycott of Israeli businesses. The Arab League boycott of Israel has three levels: A primary boycott bans direct trade between Arab states and Israel, a secondary boycott bars Arab governments from doing business with companies that do business with Israel, and a tertiary boycott bans Arab governments from doing business with companies that do business with companies doing business with Israel.⁵⁹

When companies do not comply with the Arab League’s boycott directives, their names are placed on a blacklist, and they are excluded from trade with members of the Arab League. Thus U.S. companies are caught in the middle: If they trade with Israel, the Arab League will not do business with them, and if they refuse to do business with Israel in order to trade with an Arab League member, they will be in violation of U.S. law.⁶⁰ One hospital supply company that had been trading with Israel was charged with closing a plant in Israel to get itself taken off the Arab League blacklist. After an investigation, the company pled guilty, was fined \$6.6 million, and was prohibited from doing business in Syria and Saudi Arabia for two years. A less costly fine of \$12,000 was paid by a freight forwarder who simply certified that the goods shipped for a third party were not of Israeli origin, were not shipped from Israel, and did not contain any material from Israel.

Extraterritoriality of U.S. Laws

The issue of the extraterritoriality of U.S. laws is especially important to U.S. multinational firms, because the long arm of U.S. legal jurisdiction causes anxiety for heads of state. Foreign governments fear the influence of American government policy on their economies through U.S. multinationals.⁶¹

⁵⁸The antiboycott law applies only to those boycotts not sanctioned by the U.S. government. Sanctioned boycotts, such as the boycotts against trade with Cuba and Iran, are initiated by the United States and must be honored by U.S. firms.

⁵⁹For those non-U.S. companies trading with the Arab League and complying with the boycott, each was required to include a statement on shipping invoices. On an invoice for 10 busses to be shipped from Brazil to Kuwait, the following statement appeared: “We certify that we are the producer and supplier of the shipped goods; we are neither blacklisted by the Arab Boycott of Israel nor are we the head office branch or subsidiary of a boycotted company. No Israeli capital is invested in this firm, no company capital or capital of its owners is invested in any Israeli company; our products are not of Israeli origin and do not contain Israeli raw material or labor.”

⁶⁰For a list of current cases against firms violating antiboycott law, visit <http://www.bxa.doc.gov> and select Antiboycott Compliance, then Antiboycott Case Histories.

⁶¹Anthony Ferner, Phil Almond, and Trevor Colling, “Institutional Theory and the Cross-National Transfer of Employment Policy: The Case of ‘Workforce Diversity’ in U.S. Multinationals,” *Journal of International Business Studies* 36, no. 3 (2005), pp. 304–21.

Especially troublesome are those instances when U.S. law is in conflict with host countries' economic or political goals. Conflict arises when the host government requires joint ventures to do business within the country and the U.S. Justice Department restricts or forbids such ventures because of their U.S. anticompetitive effects. Host countries see this influence as evidence of U.S. interference. When U.S. MNCs' subsidiaries are prohibited from making a sale in violation of the U.S. Trading with the Enemy Act, host governments react with hostility toward the extraterritorial application of U.S. foreign policy. This chapter's Global Perspective is a good illustration of the extraterritoriality of U.S. law and how it has an impact on a friendly neighbor as well as a major multinational company.

In an interesting development, MNCs are being held liable for the human-rights abuses of foreign governments. Lawsuits are being brought in U.S. courts against U.S. MNCs, charging them with doing business with oppressive regimes. Unocal Corporation was sued for doing business with Myanmar's (Burma's) military regime, which forced peasants at gunpoint to help build a pipeline for Unocal. Unocal denied the charges. This case was brought under the Alien Claims Act, originally intended to reassure Europe that the fledgling United States would not harbor pirates or assassins. It permits foreigners to sue in U.S. courts for violations of the "the law of nations." Businesses like IBM, Citibank, and Coca-Cola worry that they may be socked with huge jury damages for the misdeeds of oppressive governments. Employment lawyers warn that multinational companies are likely to face more lawsuits from the Third World.

When the intent of any kind of overseas activity is to restrain trade, there is no question about the appropriateness of applying U.S. laws. There is a question, however, when the intent is to conclude a reasonable business transaction. If the U.S. government encourages U.S. firms to become multinational, then the government needs to make provisions for the resolution of differences when conflict arises between U.S. law and host-government laws.

Export Restrictions

LO9

The steps necessary to move goods across country borders

Although the United States requires no formal or special license to engage in exporting as a business, permission or a license to export may be required for certain commodities and certain destinations. Export licensing controls apply to exports of commodities and technical data from the United States; re-exports of U.S.-origin commodities and technical data from a foreign destination to another foreign destination; U.S.-origin parts and components used in foreign countries to manufacture foreign products for exports; and, in some cases, foreign products made from U.S.-origin technical data. Most items requiring special permission or a license for exportation are under the control of the Bureau of Industry and Security (BIS)⁶² of the Department of Commerce.

The volume of exports and the number of companies exporting from the United States have grown spectacularly over the last decade. In an effort to alleviate many of the problems and confusions of exporting and to expedite the process, the Department of Commerce has published a revised set of export regulations known as the *Export Administration Regulations (EAR)*. They are intended to speed up the process of granting export licenses by removing a large number of items from specific export license control and concentrating licensing on a specific list of items, most of which pertain to national security, nuclear nonproliferation, terrorism, or chemical and biological weapons. Along with these changes comes a substantial increase in responsibility on the part of the exporter, because the exporter must now ensure that Export Administration Regulations are not violated.

The EAR is intended to serve the national security, foreign policy, and nonproliferation interests of the United States and, in some cases, to carry out its international obligations.⁶³ It also includes some export controls to protect the United States from the adverse impact

⁶²Formerly known as the Bureau of Export Administration (BXA).

⁶³For a primer on Commerce Department export controls, see "Introduction to Commerce Department Export Controls," <http://www.bis.doc.gov>, and select Export Control basics.

of the unrestricted export of commodities in short supply, such as Western cedar. Items that do not require a license for a specific destination can be shipped with the notation “NLR” (no license required) on the Shipper’s Export Declaration. Some export restrictions on high-technology products have been recently eased, which we hope marks the beginning of a new trend.⁶⁴

National Security Laws

American firms, their foreign subsidiaries, or foreign firms that are licensees of U.S. technology cannot sell products to a country in which the sale is considered by the U.S. government to affect national security. Furthermore, responsibility extends to the final destination of the product, regardless of the number of intermediaries that may be involved in the transfer of goods.

In the last century, an extensive export control system was created to slow the spread of sensitive technologies to the former Soviet Union, China, and other communist countries that were viewed as major threats to U.S. security. The control of the sale of goods considered to have a strategic and military value was extremely strict. But with the end of the Cold War, export controls were systematically dismantled until 1999, when a congressional committee reported Chinese espionage activities and American aerospace companies transferring sensitive technology irresponsibly. Following the report, legislation was passed again restricting the export of products or technologies that might be used by other countries for defense applications.

The events of September 11, 2001, added another set of restrictions related to weapons of mass destruction (WMD). Unfortunately, many of the products used in WMD are difficult to control because they have dual purposes; that is, they have legitimate uses as well as being important in manufacturing WMD. For example, Iraq, which was allowed to import medical equipment despite a U.N. embargo, purchased, under the pretext of medical benefits, six machines that destroy kidney stones. The manufacturer accepted the claim that Saddam Hussein was concerned about kidney stones in the Iraqi population and began shipping the machines. However, integral components of these machines are high-precision electronic switches that are also used to set off the chain reaction in thermonuclear weapons. When 120 additional switches as “spare parts” were ordered, a red flag went up, and the shipments were stopped.

Countless numbers of dual-purpose technologies are exported from the United States. A sticking point with dual-purpose exports is the intent of the buyer. Silicon Graphics Inc. (SGI) sold computer equipment to a Russian nuclear laboratory that contended it was for nonmilitary use, which would have been legal. However, the Department of Justice ruled that since the sale was made to a government-operated facility involved in both civil and noncivil activities, SGI should have applied for the correct export license. Thus, SGI paid a fine of \$1 million plus a \$500,000 fine for each of the export violations. National security laws prohibit a U.S. company, its subsidiaries, joint ventures, or licensees from selling controlled products without special permission from the U.S. government. The consequences of violation of the Trading with the Enemy Act can be severe: fines, prison sentences, and, in the case of foreign companies, economic sanctions.

Exports are controlled for the protection and promotion of human rights, as a means of enforcing foreign policy, because of national shortages, to control technology,⁶⁵ and for a host of other reasons the U.S. government deems necessary to protect its best interests. In years past, the government restricted trade with South Africa (human rights) and restricted the sale of wheat to the Soviet Union in retaliation for its invasion of Afghanistan (foreign policy). Currently, the government restricts trade with Iran (foreign policy) and the sale of

⁶⁴James Auger, “United States to Ease Technology-Export Restrictions,” *Global Insight Daily Analysis*, January 23, 2008. We note that other countries also restrict exports for a variety of reasons. For example, see “Russian Government Mulls Additional Grain Export Restrictions,” *Russia and CIS General Newswire*, Interfax, November 15, 2007.

⁶⁵Deborah Zabarenko, “U.S. Policy Curbs Global Space Cooperation,” *Reuters*, June 23, 2005; “U.S. in Talks with Boeing over Sensor Sales to China,” *Reuters*, July 7, 2005; “Space Station, No Plan B for Outer Space,” *The Economist*, March 12, 2005, pp. 75–76.

CROSSING BORDERS 7.3

The Consequences of Mixing Politics and Security

THE COX REPORT

THE UNANIMOUS *and* BIPARTISAN
REPORT *of the* HOUSE SELECT COMMITTEE
ON U.S. NATIONAL SECURITY *and*

In 1999 the Cox Report was published, making shocking claims about China's military aggressiveness toward the United States. The verbiage on the back cover delivered the gist of the argument:

China's Target: America

"The unanimous, bipartisan Cox Report is one of the most stunning documents ever to come from the U.S. Congress—a shocking account of how the People's Republic of China has targeted America for subversion, high-tech theft, and nuclear challenge.

How Communist China has replaced the former Soviet Union as America's chief military rival—and acquired the means to target nuclear missiles on American cities...."

At the time, the report was widely criticized as politically motivated and shallow in substance. Moreover, the events of September 11 rendered the argument, at best, obsolete. But the combination of the political attack on China and the associated renewed restrictions

on sales of high-technology goods and expertise has had a long-term chilling effect on U.S. sales in the world's fastest growing market. During 1999, the U.S. market share of merchandise exports to China fell from 10 percent to 8 percent, and the loss of competitiveness has remained permanent.

Sources: The Cox Report (Washington, DC: Regency, 1999); N. Mark Lam and John L. Graham, *China Now, Doing Business in the World's Most Dynamic Market* (New York: McGraw-Hill, 2007).



leading-edge electronics (control of technology), and it prohibits the export of pesticides that have not been approved for use in the United States (to avoid the return of residue of unauthorized pesticides in imported food and protect U.S. consumers from the so-called circle of poison). In each of these cases, U.S. law binds U.S. businesses, regardless of where they operate.

Determining Export Requirements

The first step when complying with export licensing regulations is to determine the appropriate license for the product. Products exported from the United States require a general or a validated export license, depending on the product, where it is going, the end use, and the final user. The *general license* permits exportation of certain products that are not subject to EAR control with nothing more than a declaration of the type of product, its value, and its destination. The *validated license*, issued only on formal

applications, is a specific document authorizing exportation within specific limitations designated under the EAR.

The responsibility of determining if a license is required rests with the exporter. This is a key point! The steps necessary to determine the type of license required and/or if an item can be shipped are as follows:

- The exporter is responsible for selecting the proper classification number, known as the *Export Control Classification Number (ECCN)*, for the item to be exported. The ECCN leads to a description in the *Commerce Control List (CCL)*, which indicates the exportability status of the item.
- The exporter must decide from the CCL if the items have end-use restrictions, for example, use in nuclear, chemical, and biological weapons. The exporter must also determine if the product has a dual use, that is, if it can be used in both commercial and restricted applications.
- The exporter is responsible for determining the ultimate end customer and end uses of the product, regardless of the initial buyer. This step includes carefully screening end users and uses of the product to determine if the final destination of the product is to an unapproved user or for an unapproved use. U.S. law requires firms to avoid shipments if the firm has knowledge that customers will use its products for illegal purposes or resell the product to unauthorized end users.

As is true of all the export mechanics that an exporter encounters, the details of exporting must be followed to the letter. Good record keeping, as well as verifying the steps undertaken in establishing the proper ECCN and evaluating the intentions of end users and end uses, is important should a disagreement arise between the exporter and the Bureau of Industry and Security. Penalties can entail denial of export privileges, fines, or both. For example, a five-year denial of export privileges was imposed on a resident of Pittsfield, Massachusetts, based on his conviction of illegally exporting 150 riot shields to Romania without the required export license. At the time of the shipment, the riot shields were controlled for export worldwide for foreign policy reasons.

Chinese air force officers undergo a training session on the latest command center instruments at a training school in Beijing. China successfully test-fired a new type of long-range ground-to-ground missile within its territory as tensions between China and Taiwan intensified after Taiwan's president declared that relations between Taipei and Beijing should be regarded as "special state-to-state relations." Most recently China and the United States have both shot down their own "errant" satellites with missiles.⁶⁶ Much of the electronic technology used in long-range missiles is dual-use; that is, the technology can be used for both nonmilitary and military applications. It is the exporter's responsibility to ensure that the final user of restricted dual-use products complies with export restrictions.



⁶⁶ "China Confirms Anti-Satellite Test to US, Says Not a Threat," *AFX UK Focus*, January 22, 2007; Yochi J. Dreazen, "U.S. Missile Hits Satellite—Military Strike Raised Hackles in China; Test Charges Denied," *The Wall Street Journal*, February 22, 2008, p. A9.

ELAIN, STELA, ERIC, and SNAP

Although the procedure for acquiring an export license may seem tedious on first reading, four electronic services facilitate the paperwork and reduce the time necessary to acquire export licenses.

- **ELAIN** (Export License Application and Information Network) enables exporters that have authorization to submit license applications via the Internet for all commodities except supercomputers to all free-world destinations. When approved, licensing decisions are conveyed back to the exporters via the Internet.
- **STELA** (System for Tracking Export License Applications), an automated voice-response system for tracking applications, can be accessed using a touch-tone phone. It provides applicants with the status of their license and classification applications and is available 24 hours a day, seven days a week. STELA can give exporters authority to ship their goods for those licenses approved without conditions.
- **ERIC** (Electronic Request for Item Classification), a supplementary service to ELAIN, allows an exporter to submit commodity classification requests via the Internet to the Bureau of Export administration.
- **SNAP** (Simplified Network Application Process), an alternative to paper license submissions, enables an exporter to submit export and re-export applications, high-performance computer notices, and commodity classification requests via the Internet. Acknowledgments of submissions will be received the same day, and electronic facsimiles of export licenses and other validations can be obtained online. SNAP is one of the changes made by the Department of Commerce to move it from being a paper-based bureaucracy to an all-digital department.

Summary

Businesses face a multitude of problems in their efforts to develop successful marketing programs. Not the least of these problems is the varying legal systems of the world and their effect on business transactions. Just as political climate, cultural differences, local geography, different business customs, and the stage of economic development must be taken into account, so must such legal questions as jurisdictional and legal recourse in disputes, protection of intellectual property rights, extended U.S. law enforcement, and enforcement of antitrust legislation by U.S. and foreign governments. A primary marketing task is to develop a plan that will be

enhanced, or at least not adversely affected, by these and other environmental elements. New to the international legal scene is the Internet, which, by its nature, creates a new set of legal entanglements, many of which have yet to be properly addressed. One thing is certain: The freedom that now exists on the World Wide Web will be only a faint memory before long. The myriad questions created by different laws and different legal systems indicate that the prudent path to follow at all stages of foreign marketing operations is one leading to competent counsel, well versed in the intricacies of the international legal environment.

Key Terms

Common law
Code law
Islamic law

Marxist–socialist tenets
Conciliation
Arbitration

Litigation
Prior use

Registration
Cybersquatters (CSQs)

Questions

1. Define the key terms listed above.
2. How does the international marketer determine which legal system will have jurisdiction when legal disputes arise?
3. Discuss the state of international commercial law.
4. Discuss the limitations of jurisdictional clauses in contracts.
5. What is the “objective theory of jurisdiction”? How does it apply to a firm doing business within a foreign country?

6. Discuss some of the reasons seeking an out-of-court settlement in international commercial legal disputes is probably better than suing.
7. Illustrate the procedure generally followed in international commercial disputes when settled under the auspices of a formal arbitration tribunal.
8. What are intellectual property rights? Why should a company in international marketing take special steps to protect them?
9. In many code-law countries, registration rather than prior use establishes ownership of intellectual property rights. Comment.
10. Discuss the advantages to the international marketer arising from the existence of the various international conventions on trademarks, patents, and copyrights.
11. "The legal environment of the foreign marketer takes on an added dimension of importance since there is no single uniform international commercial law which governs foreign business transactions." Comment.
12. Why is conciliation a better way to resolve a commercial dispute than arbitration?
13. Differentiate between conciliation and arbitration.
14. Assume you are a vice president in charge of a new business-to-business e-commerce division of a well-known major international auto parts manufacturer. A cybersquatter has registered the company name as a domain Web name. What are your options to secure the domain name for your company? Discuss the steps you should take to ensure worldwide protection of your domain name.
15. Discuss the issues of a Web site owner being liable for information posted on the site.
16. Discuss the motives of a cybersquatter. What recourse does a company have to defend itself against a cybersquatter?