



Designing a New Course: The Global Environment of Business

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Abstract. Businesses confront significant differences among countries in regard to industry structures as well as economic, political, societal, and technological forces. These differences create new challenges and opportunities for a business as it extends its activities internationally. Consequently, Business Schools must deal with the question of how best to develop skills in examining these differences in the business environment and in analyzing their implications for corporate strategies. This article presents a case-based course designed to achieve this objective. Cross-country comparisons add complexity to the subject matter, enrich analytical theories, and heighten the interest of students. The article discusses each section of the course, indicating issues that may be covered and summarizing cases that may be used. It also suggests literature references, websites and assignments. Ongoing changes in environmental forces create a need to update various teaching materials frequently. Lectures can supplement or replace cases. Students in different countries may appreciate course modifications that place greater emphasis on issues of importance to their particular region. The GEOB course design can readily accommodate such revisions and modifications.

Keywords: global environment of business, environmental forces, corporate strategies, international business issues, industry structure, macroeconomic variables, political variables.

1. Introduction

This article describes a course entitled The Global Environment of Business (GEOB). This course demonstrates the relationships among the major environmental forces, examines the ways in which they differ among nations and over time, and analyzes how they may impact corporate strategies. The introduction presents the conceptual framework, indicates how this framework facilitates the analysis of international business issues, and suggests where this course fits within a curriculum of international business education. The following six sections recommend themes and case studies that may form the structure for each component of the course. The final section suggests assignments that enable students to apply their acquired skills and insights to issues they find of particular relevance for their career, and it points to ongoing modification of course content to incorporate current developments. The Richard Ivey School of Business designed GEOB replaces two previous courses, economics and the political economy of business, and to add societal and technological issues - all within an international context. GEOB addresses the following five sets of environmental forces:

- Industry Structure: Responses to strategies of customers, suppliers and competitors, dependence of profitability on unique value-added attributes, and the shift of certain activities to low-wage countries;
- Macroeconomic variables: Income levels and growth rates, foreign exchange rates, inflation rates, interest rates, and unemployment rates;
- Political variables: Regulations, financial incentives, taxation, foreign investment restrictions, and international trade and investment agreements;
- Societal variables: Labour and environmental practices, ethics, corporate social responsibility, Boards of Directors, and demographics;
- Technological variables: Technological infrastructure and the pace and direction of technological changes, including in particular the Internet and e-business.

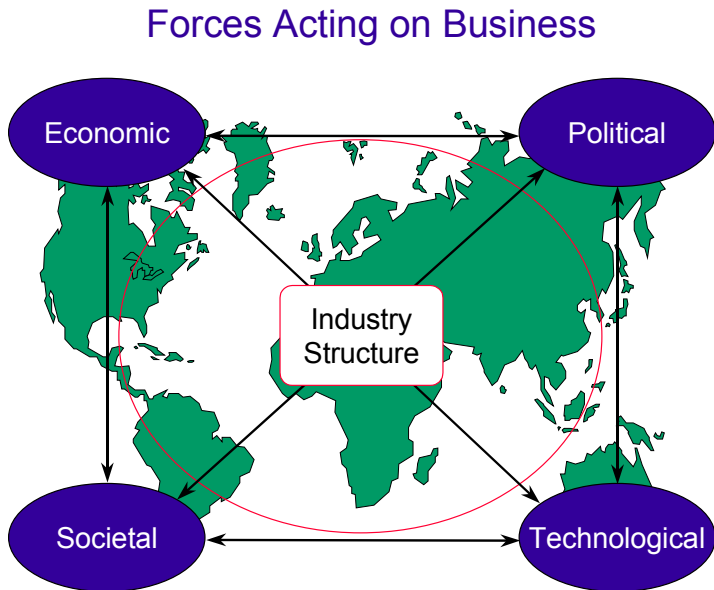
Diagram 1 opposite is a useful framework for an introductory discussion of these five sets of forces.

The process of internationalizing the subjects dealt with in GEOB changes their content. Broadening the scope of environmental forces to a global rather than a domestic context leads to cross-country comparisons that add complexity to the subject matter, enrich analytical theories, and heighten the interest of students. Students gain an appreciation for the many ways in which environmental forces interact, creating a set of risks and opportunities that are unique in each country and that must be evaluated in formulating trade and investment decisions.

Today, many students enter Business Schools after having acquired some international business experience, and many participants in Executive MBA programs work for international firms where they are exposed regularly to issues covered in the course. Consequently, case discussions involve insights based upon the students' actual experiences in other countries. For some Business Schools, a growing percentage of students now come from mainland China and Eastern European countries where experience in free enterprise markets is limited, as is knowledge of how government can conduct macro and micro economic policies. This shift in student composition adds to the importance of the GEOB course as a way of introducing students to these important market and political concepts. The influx of foreign students has exacerbated an existing difficulty, namely that some students have majored in economics while others have taken only an introductory undergraduate course.

The GEOB solution is to simplify economic analysis, minimizing the use of mathematics, and relying on literary frameworks for the analysis of industry structure. Course modifications can be developed to deal most effectively with the particular student composition of each class, and the needs of each program.

DIAGRAM 1



A difficult question in designing the course is where to draw the line - in regard to subject matter and perspectives - that separates it from other courses. "Strategy" and "General Management" pose a particular challenge in this regard, since GEOB analyzes the impact of external forces on corporate strategy. "Marketing" courses include game theory and "elasticity of demand" issues; "Information Systems" and "Operations" courses include e-business and "elasticity of supply" issues; and "Organizational Behaviour" or "Human Resource" courses deal with cross-cultural issues. A general answer to the question of subject matter boundaries is to draw the line at the factory gates or the corporate doorstep, with GEOB looking outward at external forces. However, the analysis of environmental impacts on the industry and firm require skill sets and analytical frameworks that are the focus of other courses, and so overlap cannot be eliminated. This feature means that GEOB plays the role of an integrative course, and is most successful when placed part way through a program.

2. The Dependence of Profitability on Industry Structure

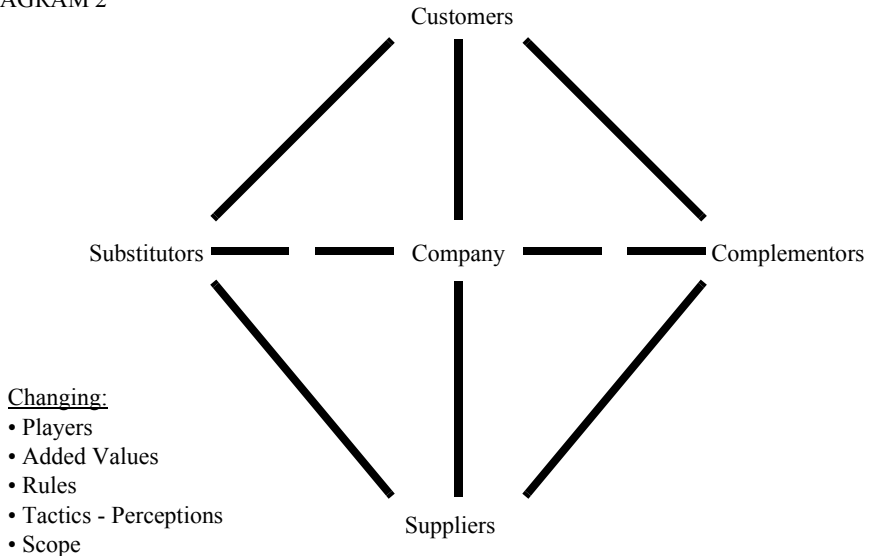
This section presents several of the analytical frameworks and concepts that are used throughout the course, and it introduces a wide variety of issues that are analyzed more fully as the course proceeds. Cases illustrate the ways that microeconomic forces and industry structure constrain management decisions. Decision-making concerning prices to be charged and quantities to be produced requires that management understand customer, supplier, and competitor strategies, and these market realities vary among countries. Meanwhile, increases in wage levels in the more-developed nations may lead to a shift of activities to low-wage countries.

Conceptual frameworks used in analyzing industry structure include Michael Porter's "five forces model," through which each industry can be analyzed from the perspective of the rivalry among existing competitors, the threat of new entrants, the bargaining power of buyers, the threat of substitutes, and the bargaining power of suppliers.¹ A sixth force, the impacts of complementors, can be added to this model. Elements of microeconomic theory and game theory are analytical tools that help in the examination, of how a change in price will affect sales volumes and hence revenue, costs, and profits. Industry structures may differ significantly from one country to another, and these differences may provide a rationale for international investment. International investment can enable a firm to increase its profitability by shifting from a market where it has no significant competitive advantage to a market where its activities are unique. Strong competitors can limit expansion opportunities in a firm's home country, while the firm may benefit from a monopoly position if it invests in a foreign market. Important differences in industry structures among countries can result from any of the environmental forces: for example, levels of economic development, types of political regulations, preferences of consumers, or elements of technologies. As Douglas North has discussed, many of a country's institutions can shape an industry's international competitiveness.²

Some industry structures can lead to a "game" among participants in the sense that the actions of one participant will impact on the profitability of other participants. Decisions must be undertaken based upon an evaluation of a series of possible outcomes, where each outcome depends upon the reaction of others in the industry. From this perspective, Brandenburger and Nalebuff have suggested a useful framework for the analysis of industry (Diagram 2).³

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1. Porter, M. "How Competitive Forces Shape Strategy," *Harvard Business Review*, March-April 1979.
 2. North, D. *Institutions, Institutional Change, and Economic Performance*, Cambridge University Press, 1990.
 3. Brandenburger, A. M. and Nalebuff, B. J. "The Right Game: Use Game Theory to Shape Strategy," *Harvard Business Review* (July/August 1995): 57-71.

DIAGRAM 2



Participants may alter potential outcomes by changing the industry structure in a variety of ways. In particular, Brandenburger and Nalebuff suggest that each corporation should use what they refer to as “PARTS as a comprehensive, theory-based set of levers” to help generate strategies. Each letter in the phrase “PARTS” represents a lever for changing the industry structure. A corporation may threaten to change the number of players (P) by indicating that it intends to enter an industry. The mere threat may result in compensation being paid to it, thereby altering the allocation of the value-added among the participants. A corporation may change the “added values” (A) by lowering the added value of others, as well as by increasing one’s own added value. A corporation may change the rules (R), for example, by developing new pricing policies. A corporation may change tactics (T) in ways that alter other players’ perceptions and therefore their decisions. A corporation may change the scope (S) of the game by severing linkages with other companies or building new alliances. Unlike Porter’s Five Forces that analyze an existing industry structure, this game theory approach examines ways to change the industry structure.

The concept of an industry as a “value chain” involves the analysis of the relative attractiveness of alternative business activities required in the process of creating products or services, where each link adds a certain value within the “chain.” The “creative web” concept suggests perspectives and practices necessary to stimulate the innovation process among firms that are separate corporations but that work together within a value chain.⁴ Many

organizational structures in the 21st century will rest on cooperation as well as competition. A set of corporations will work together to expand the value that is added by their group. While the group as a whole faces competition from other groups, the organizational dynamic within each group seeks to improve the outcomes for all participants. The analysis of the creative web builds upon the game theory framework, in that it focuses on the ways in which individual corporations may impact the success of each other. However, it sees this relationship as one where the objective is for all participants to win through innovation that increases the web's added value, enabling all participants to increase their financial gain.

To evaluate the international competitiveness of a potential investment location for a specific industry, or for a specific activity within the industry, Michael Porter's "diamond framework" is helpful.⁵ Countries differ in regard to factor conditions, demand conditions, rivalry among competitors, and related and supporting industries. These features together with the role of government and of chance, may combine to create a competitive advantage in a region or country for certain types of activities which may then develop as a "cluster" of firms." Business investment decisions can be strengthened through such an analysis of industry/country competitiveness. New international trade and investment agreements can radically alter this "diamond," changing an industry/country competitive advantage. Trade and investment agreements, together with an industry structure of a value chain or a creative web can facilitate the location of separable activities in different countries, with each country offering a competitive advantage for a specific type of activity, leading to the concept of an activity/country competitive advantage.

2.1. Industry Structure Cases

Shrimp Farming in Ecuador, Ivey Case #9A97H005: Xavier realized that he could increase his profits substantially by expanding from shrimp farming into further processing. An initial step could be a plant to clean, sort, and freeze the shrimp. Additional steps could include the preparation of many forms of cooked shrimp, including frozen shrimp dinners with vegetables. This case focuses on the various stages within the value chain, and the competitive advantage of Ecuador versus the competitive advantage of more developed countries with regard to each of these stages. Are there

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4. Conklin, D. and Tapp, L. "The creative web," *Management 21C: someday we'll all manage this way*, Prentice Hall/Pearson Education, 2000, 220-234.
 5. Porter, M. "The competitive advantage of nations," *Harvard Business Review*, March-April 1990: 73-91.

certain activities that can best be undertaken in Ecuador, while other activities are best undertaken in Japan or the USA?

De Beers Consolidated Mines (A), Harvard Case #391076: De Beers Consolidated Mines struggled to maintain a global monopoly. While this market power gave De Beers greater freedom with respect to decisions such as pricing, it introduced other issues such as managing market demand and preempting competition. This case examines the issues and constraints faced by a single dominant firm in an industry as it seeks to maintain and exploit that position.

British Satellite Broadcasting (BSB) vs. Sky Television, Harvard Case # 794031: This case presents a market situation consisting of two firms, where the decisions of each have a direct impact on the profits of both. By October 1990, competition had resulted in large losses for both BSB and Sky. Several alternative strategies could be implemented, each having different impacts on profits and market shares. A purpose of this case is to explore these strategies and to reach a decision concerning which strategy would be best for BSB, and which would be best for Sky. Game theory can help in the analysis of this industry structure.

PharmaPlus in Hungary, Ivey Case #9A98G002: Hungary had strict laws defining what could be sold in a pharmacy and a “druggery,” (which were two separate entities), yet PharmaPlus was attempting to combine the two within a single store. Management of PharmaPlus faced opposition from the regulatory body of pharmacists which had authority over each pharmacy’s operations. The case deals with issues of lobbying stakeholders who have power, finding a sustainable competitive advantage in a market with many competitors that has never seen this type of business, and exploring potential international expansion in the context of Hungary entering the EU.

The CAW and the Big Three Automakers, Ivey Case #9A98M018: Historically, the automotive industry was a source of high-paying jobs for a large number of Canadians, while at the same time making significant contributions to Canada’s GDP. Much of the credit for the level of employment and income enjoyed by workers in the industry could be attributed to the negotiating power of the Canadian Auto Workers. However, many argued that globalization had ushered in a new era of labour-management relationships in which bargaining power had shifted decisively toward management as a result of management’s threat to shift production to Mexico. This case explores the tensions between workers, unions, and management in the context of globalization and the movement towards free trade.

3. Understanding and Managing Macroeconomic Risks

Effective decision-making requires the ability to understand and forecast broad macroeconomic forces, and to incorporate this information within the decision-making process. Topics include the relationships between inflation and exchange rates; business cycles and unemployment; and monetary and fiscal policies. In addition to a macroeconomics text⁶, references should include websites such as competitiveness ranking (www.imd.ch/wcy), opacity

index (www.opacityindex.com), and the index of economic freedom (www.fraserinstitute.com).

Traditionally, the economics literature draws upon the experiences of Western Europe and North America. The inclusion in GEOB of other countries' economic experiences demonstrates limitations to some economic theories, highlighting the assumptions on which they are based and questioning their universal applicability. For example, the potential limitations of expansionary monetary and fiscal policies in a depression can be clearly understood in a discussion of Japan's post-1990 difficulties, where fiscal deficits and low interest rates have failed to achieve economic recovery. The need for a strong and stable banking system in order to implement monetary policy successfully has become most evident in the rapid inflation and frequent foreign exchange crises of less developed countries. The applicability of the International Monetary Fund (IMF) formula for dealing with foreign exchange crises might not be appropriate for less developed countries where the sudden imposition of tight monetary policy and fiscal constraints could cause political disarray,⁷ economic dislocation, and severe deprivation for low-income groups.⁷

The theory of purchasing power parity is demonstrated dramatically in countries that have experienced very rapid inflation, rather than in the economically advanced nations with their restrained inflation rates. The linkages between micro and macro economic theories are most apparent in countries where industry structures retard productivity growth, and where, consequently, successful macro policies depend on successful micro policies. For example, countries struggling with the transition from Communism to free enterprise have demonstrated these micro-macro linkages to a significant degree. Corruption might be ignored in traditional texts, but the relationships between corruption and economic growth are important in countries where bureaucrats have the power to deny or impede business plans on a case-by-case basis.⁸

3.1. Macroeconomics Cases

Chauvco Resources Ltd: The Argentina Decisions, Ivey Case #9A95H003: The major focus of this case is a comparison between Canada where Chauvco began, and Argentina, where technologies that were common in Canada offered a unique competitive advantage. Argentina's traditional hyperinflation and devaluations seemed

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6. Kennedy, P. *Macroeconomic Essentials: Understanding Economics in the News*, second edition, Cambridge, MA: The MIT Press, 2000.
 7. Stiglitz, Joseph. *Globalization and its discontents*. New York, W.W. Norton & Co., 2002.
 8. *Corruption Perception Index (CPI)* – see www.transparency.org

to have been eliminated by Menem's reforms of the early 1990's, but students must determine whether these macroeconomic risks remained, and the degree to which they posed a threat to Chauvco's profitability.

The Bank of Nova Scotia; The Mexico Decisions, Ivey Case #9A96H001: Prior to signing the GATT and NAFTA, Mexico severely restricted the activities of foreign financial institutions, protecting the Mexican market for domestically-owned banks. New international agreements required that Mexico open its financial markets, and the Bank of Nova Scotia faced the decision whether it should be one of the first foreign financial institutions to enter the Mexican market. Having made the decision to proceed, the Bank suddenly confronted the 1994 Peso Crisis and had to decide upon an appropriate response.

Bank Vozrozhdeniye, Ivey Case #9A99M008: "V Bank" struggled to survive the difficulties that accompanied Russia's liberalization reforms. The environment of business included poor regulation, unfair and intense competition, inflation, currency devaluation, political risk and civil unrest.

Uganda and the Washington Consensus, Harvard Case #798047: In the latter part of the 20th century, Uganda was finally experiencing some economic success, but many observers felt that this success was achieved at the expense of basic democratic rights. President Yoweri K. Museveni asserted "Uganda needs a thriving economy and a middle class that can mobilize party activity around issues other than ethnicity before they can attempt democracy." Uganda illustrates the tension between democratic reforms and the achievement of the macroeconomic policies advocated by the IMF and the World Bank.

Crisis in Japan, Ivey Case #9B02M024: This case is a dialogue among four friends, who examine the economic crisis that has affected Japan since the beginning of the 1990s and who focus on the current situation of recession and deflation. Extensive macroeconomic data is provided, as well as information on the policies implemented by the government since 1992. How did Japan get into the crisis, and why has it not yet recovered?

4. Managing within Alternative Government Structures

Shaping the political environment of business are government structures - from parliamentary and presidential systems to dictatorships. For each government structure, the lobbying process may be unique, and so may the role and importance of business-government relations. The paradigm on which much of the public choice literature is based is the U.S. system, with the opportunity for individuals in Congress to initiate legislation and to vote independently, yet most of the world does not share this political paradigm.⁹ Consequently, international businesses have to adjust their management structure and procedures to deal most effectively with whatever government structure exists in each country. Furthermore, the concept of political risk

becomes more complex when opposing parties advocate very different policy positions, and where significant policy changes will accompany a change in leadership - as opposed to systems like those in the U.S. and Western Europe where centrist parties may not threaten such abrupt changes.

Throughout the world, governments attempt to alter private sector decisions in the interests of what they perceive to be the public good. Such intervention may rest upon a belief that “market failures” prevent an optimal set of outcomes. Governments may also intervene in order to stimulate economic growth, to maintain competition or to alter the distribution of income and wealth.¹⁰ However, government policies that traditionally were regarded as “domestic” have now become of international relevance, as they distort price ratios and hence trade patterns, or even act as trade barriers. Consequently, in recent years, trade negotiations to reduce tariffs have been broadened to include a wide variety of government programs and policies that act as non-tariff barriers, and that have restricted foreign investment.¹¹ As a result, business decisions that could once be based on domestic industry structure are increasingly rare. Even businesses that focus solely on the local market are forced to deal with competitive threats against which tariff and non-tariff barriers once protected them. Trade agreements lead some governments to alter traditional strategies for supporting “strategic” industries, and to consider an array of alternative policies and programs they can use to favour their domestic firms. A major cause of trade disputes has to do with these domestic preferences, such as subsidies, and the “unfair competition” which results.

Many elements in a nation’s political environment of business deserve consideration in light of these new international realities. International trade in services may be hampered by travel and immigration restrictions, and the need to establish local offices. With the growth of high-tech businesses and brand-name merchandise, the protection of intellectual property has become increasingly important for international business. Other issues include dumping and competition policy, environmental and labour standards,

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9. Pardo, J.P. and Schneider, F. eds., *Current issues in public choice*. Cheltenham, UK, Elgar, 1996.; McNutt, P. *The economics of public choice*, Cheltenham, Elgar, 2002.; Peacock, A. *Public choice analysis in historical perspective*, New York, Cambridge University Press, 1992.; Chrystal, A. and Pennant-Rea, R. (eds.) *Public choice analysis of economic policy*, New York, St. Martin’s Press, 2000.
 10. Mitchell, W. *Beyond politics: markets, welfare, and the failure of bureaucracy*, Boulder, Westview Press, 1994.; Acocella, N. *Foundations of economic policy: values and techniques*, New York, Cambridge University Press, 1998.; Weimer, D.L. *Policy analysis: concepts and practice*, Upper Saddle River, NJ, Prentice Hall, 1999.
 11. Hufbauer, G.C., Schott, J.J., *NAFTA: An assessment revised edition*, Institute for Entrepreneurial Economics, Washington, 1993.; Adamantopoulos, K.(ed.) *An anatomy of the World Trade Organization*, London, Kluwer Law International, 1997.; Krueger, A. (ed.) *The WTO as an international organization*, Chicago, University of Chicago Press, 1998.

harmonization of taxation, and differing technical standards. For many countries, the preservation of culture justifies barriers to the inflow of foreign-produced entertainment and media content. National governments sign international agreements, and so provincial, state, and local governments may not be bound by these agreements. At the same time, regional agreements have been able to pursue trade and investment liberalization to a greater degree than the WTO - in the case of the EU, even so far as a single currency.

For businesses, the changing content of trade and investment agreements creates opportunities as well as challenges. While international negotiations are aimed at creating a level playing field, businesses do not necessarily want “a level playing field” - indeed, individual firms are constantly seeking ways to obtain an advantage out of the legislative and regulatory frameworks that governments create. GEOB seeks to enhance understanding of what government does and how it does it, so that participants can be informed players in this complex arena. Of particular importance are recent trends towards liberalization reforms, particularly privatization and deregulation programs.

4.1. Political Cases

Lucent in India, Ivey Case #9B01M047: The government of India promised to institute economic reforms that would privatize government-owned telecom systems and that would give telecom firms much greater freedom from traditional government regulations. However, it was not clear whether - or to what degree - India's economic reforms would actually materialize, nor was it clear whether India would achieve macroeconomic stability.

Thai Telecoms in the New Economy: Challenges & Opportunities of Privatization & Liberalization, Ivey Case #9B01M064: The economic crisis that had ravaged Thailand in 1997 was an impetus that started the country down the difficult road of liberalization, under an agreement with the IMF. The major issues involved in the transformation of the telecom industry from a state-run duopoly to a free market-based sector were daunting: the process for corporatization and the subsequent privatization of the state-owned telecom operators; the conversion of revenue-sharing agreements between private operators and the two state-run telecom agencies; the process of establishing a regulatory body to oversee privately-owned firms; and finally the full liberalization of the sector by 2006, with the reduction - perhaps even elimination - of foreign ownership restrictions.

Procter & Gamble in Eastern Europe, Ivey Case #9A97H001: In 1990, the management team of Procter & Gamble confronted a series of tough issues in deciding how and where to enter the newly liberated economies of Eastern Europe. If P&G were to enter joint ventures, it and its domestic partners would be motivated by different values and objectives, and these differences could become increasingly important. Although many of the Communist governments were allowing foreign companies to

increase their business activities in their once restricted markets, many remaining government regulations would constrain P&G's expansion.

Citigroup in Post-WTO China, Ivey Case #9B02M012: China's entry into the World Trade Organisation (WTO), at the end of 2001, brought promises that foreign financial institutions would be permitted to operate throughout China. In 1998, Citicorp and Travelers Group Inc. merged to create the new entity Citigroup Inc. Travelers brought a vast array of financial services that added to Citibank's existing portfolio of consumer and commercial lending. Citigroup now had to determine the business prospects for each of its activities in the growing China market. Fears of social and economic dislocation might lead China to impose regulatory restrictions limiting the pace of foreign expansion. Economic growth might be impeded by the existing political structure, and reforms might not occur in the near term. A myriad of other challenges included human resource difficulties, e-commerce limitations, and regional disparities. The pace of privatization of state-owned enterprises and the societal preferences in regard to alternative insurance and investment products added to uncertainties.

Mekong Corporation and the Viet Nam Motor Vehicle Industry, Ivey Case #9A96H002: Viet Nam became a focus of business attention in Southeast Asia as the government began to reduce some of its restrictions with respect to trade and foreign investment. However, the government was reluctant to open its markets completely to free trade. This case examines issues of doing business in newly emerging markets, and the liberalization challenges that must be managed by business and government.

General Motors (GM) and the Problem of Fuel Economy, Harvard Case #792063: The U.S. government was motivated by concerns about a possible energy shortage, and so it sought to reduce automobile fuel consumption. This case introduces the question whether management should cooperate with government or whether it should seek to mobilize public opinion against the proposals. General Motor's decisions would be impacted by the decisions of GM's competitors, Ford and Chrysler. The case also involves the role of employees who might be adversely affected by the proposals. The elasticity of demand, the ability to innovate, and the reaction of foreign competitors would all impact the way in which the cost burden of new regulations would be shared among the various interests.

Finn Coop Pellervo, Harvard Case #793130: Finland's meat producers had been protected from foreign competition for decades, but the formation of the European Economic Area (EEA) and Finland's prospective entry into the EU would eventually open the Finnish market to European competitors. This case addresses many issues, including: the geographic scope of competition and strategy, the effects of reducing trade barriers in a protected industry, national sources of advantage and disadvantage in industry, and the economics and politics of agricultural protection.

Labatt Ice, Ivey Case #9A94H010: Labatt developed a new brewing technology and sought to capture market share throughout North America. The industry structure, the regulatory environment, the rivalry within the industry, and consumer preferences all differed from one country to another. Furthermore, as a result of NAFTA, the home market was threatened by international trade liberalization pressures that would change the industry structure.

ING and Global Financial Integration, Ivey Case #9A99M022: European integration, and particularly the adoption of a single currency, would impact many European businesses, as a single set of standards and regulations would replace those imposed by individual governments. ING had to consider the creation of a new European strategy in place of previous country strategies. ING also had to evaluate its unsatisfactory performance in emerging markets. Meanwhile, the rapid growth of electronic banking could also change many traditional banking practices.

Note on the Pollution Problem along the Mexico-US Border, Ivey Case #9A98H001: Many argue that the global expansion of capitalism threatens to create an environmental nightmare as countries compete to attract investment and generate growth, even at the cost of acting as “pollution havens” for foreign multinationals. Others point to the rising tide of environmental consciousness, along with more stringent regulations at the national and international levels, as heralding a new era of “sustainable development.” Managers need to understand the various aspects of the issue in order to formulate and implement effective environmental strategies.

Bombardier Versus Embraer: Charges of Unfair Competition, Ivey Case #9A99M004: In both Brazil and Canada, governments sought to stimulate high-tech industries in order to create high-paying jobs, but the mechanisms for this assistance differed. Government assistance could take a variety of forms, and it was difficult to quantify the extent of assistance. The WTO imposed limitations on subsidies, but the ultimate outcome in this trade dispute was uncertain.

5. Responding to Societal Forces

Values, cultural behaviours, and even ethical standards differ significantly among countries. For some issues, such as those relating to social interaction, there may be a general acceptance of local norms. For certain issues, such as prohibitions against bribery of government officials, some firms attempt to enforce their home-country code of conduct globally, while realizing that this could handicap their financial success; other firms adapt to local practices. In each country, managers need to understand such cross-cultural differences and consider what adjustments in corporate practices would be appropriate. Investment decisions can also be impacted by differences in environmental regulations and labor standards - or, alternatively, a firm could decide to adhere to the higher levels required in economically advanced nations. Here the subject of ethics enters the cross-country analysis of comparative costs. Examining such societal differences and their impacts on business draws students into ethical perspectives that might not be raised in a traditional course with a domestic focus. The recent proliferation of literature on corporate social responsibility and the role of Boards of Directors attracts considerable interest in the context of recent corporate scandals, and debates about appropriate corporate reporting.¹²

Government programs and policies are impacted by societal pressures, and societal pressures may also impact a firm directly. Societal forces differ significantly among countries, and they change significantly over time. Corruption and human rights violations have become international concerns rather than just domestic issues, and have led to new international agreements that seek to create common standards. For businesses, trade sanctions in response to human rights violations pose a recurring dilemma. In examining the implications of these environmental forces for management decisions, a key question is, “Whose decision is it?” For firms with branches in many countries, this question raises the allocation of responsibilities between local management and the head office. In many countries, governance practices have been changing significantly in recent years. For some societal issues, employees may have the right to participate in the decision process. The Board of Directors may feel that it should be the final decision-maker with regard to certain societal issues, and the law may in fact require the Board to bear responsibility.¹³ Meanwhile, increasingly active groups of “stakeholders” demand the right to influence some of these decisions.

This section of the course may also address the current “antiglobalization debate,” in which many express the view that poverty and inequality have been exacerbated by the reduction of trade and investment barriers.¹⁴ This debate extends to the obligations that rich nations should accept in assisting poor nations in the development process, including criteria for foreign aid and debt forgiveness. This debate also extends to the appropriate role for international institutions, especially the IMF and World Bank.¹⁵

5.1. Societal Cases

Burroughs Wellcome and AZT (A), Harvard Case #792004: Burroughs Wellcome created a new product, AZT to treat AIDS, but its price decisions encountered a barrage of criticism from public advocacy groups and government representatives. Burroughs Wellcome had to develop a strategy to deal with these forces. This case introduces issues related to R&D, intellectual property, patents, monopoly power, barriers to entry,

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12. Hatcher, T. *Ethics and HRD: a new approach to leading responsible organizations*, Cambridge, Perseus Publishers, 2002.; Hartman, L. *Perspectives in business ethics*, Boston, McGraw-Hill, 2002; Bulik, B.S. “Can CEOs defend corporate America’s image?” *Chief Executive*, New York, Jul 2002, 180: 54-58.
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