TT TEXTBOOK TESTBANKS

Test Bank for International Management Managing Across Borders and Cultures Text and Cases 10th Deresky

TEST BANK SAMPLE PREVIEW

PUBLISHER

Pearson

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2021

RESOURCE TYPE

Test Bank

ISBN

9780135897874

International Management, 10e, (Deresky/Miller)
Chapter 1 Assessing the Environment: Political, Economic, Legal, Technological

1) Which of the following is characterized by networks of international linkages comprising economic, financial, political and social markets that bind countries, institutions, and people in an interdependent economy?
A) communism
B) nationalization
C) socialism
D) globalization
Answer: D
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

2) The pace of globalization has slowed and, in most instances, declined in part because of ________.
A) protectionism
B) fluctuating exchange rates
C) free trade agreements
D) cultural differences
Answer: A
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
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AACSB: Application of knowledge

3) ________ results from the lessening of trade barriers and the increased flow of goods and services, capital, labor, and technology around the world.
A) Economic integration
B) Nationalization
C) Protectionism
D) Mercantilism
Answer: A
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
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AACSB: Application of knowledge

4) In which of the following groups of trade blocs does most of today's world trade take place?
A) Middle East, China, and India
B) North America, Africa, and Canada
C) Western Europe, Asia, and the Americas
D) Saudi Arabia, Western Europe, and the Gulf
Answer: C
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
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AACSB: Application of knowledge

5) The ________ is the simplest and most basic form of regional integration.
A) common market
B) political union
C) customs union
D) free trade area
Answer: D
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

6) Which of the following is an example of a customs union?
A) NAFTA
B) ASEAN
C) MERCOSUR
D) EFTA
Answer: C
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

7) Members of ________ allow free trade between members and agree to adopt common tariffs and non-tariff barriers that are applied to imports from nonmember countries.
A) free trade areas
B) customs unions
C) the USMCA
D) the EFTA
Answer: B
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

8) A formal arrangement between two or more countries to reduce or eliminate tariffs is known as a ________.
A) quota arrangement
B) free trade agreement
C) memorandum of association
D) memorandum of understanding
Answer: B
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

9) Regional economic group is defined as ________.
A) an agreement among countries in a geographic region to reduce and ultimately remove tariff and nontariff barriers to the free flow of goods, services and factors of production between each other
B) an agreement among companies in a geographic region to reduce and ultimately remove tariff and nontariff barriers to the free flow of goods, services and factors of production between each other
C) an agreement among countries in a geographic region to increase tariff and nontariff barriers to the free flow of goods, services and factors of production between each other
D) an agreement among countries in a geographic region to increase tariff and nontariff barriers to the free flow of goods, services and factors of production with nonmember countries
Answer: A
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

10) A customs union refers to ________.
A) a group of countries committed to (1) removing all barriers to the free flow of goods and services between each other and (2) the pursuit of a common external trade policy
B) a group of countries committed to (1) removing all barriers to the free flow of goods, services and factors of production between each other and the (2) pursuit of a common external trade policy
C) a group of countries committed to (1) removing all barriers to the free flow of goods and services between each other but pursuing independent external trade policies
D) a group of countries committed to (1) removing all barriers to the free flow of goods, services and factors of production between each other; (2) the adoption of a common currency; (3) the harmonization of tax rates; and the (4) pursuit of a common external trade policy
Answer: A
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

11) A common market refers to ________.
A) a group of countries committed to (1) removing all barriers to the free flow of goods and services between each other and (2) the pursuit of a common external trade policy
B) a group of countries committed to (1) removing all barriers to the free flow of goods, services and factors of production between each other and the (2) pursuit of a common external trade policy
C) a group of countries committed to (1) removing all barriers to the free flow of goods and services between each other but pursuing independent external trade policies
D) a group of countries committed to (1) removing all barriers to the free flow of goods, services and factors of production between each other; (2) the adoption of a common currency; (3) the harmonization of tax rates; and the (4) pursuit of a common external trade policy
Answer: B
Difficulty: 2: Moderate
Chapter: 1
Skill: Application
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AACSB: Application of knowledge

12) Nations pursuing regional integration seek to ________.
A) increase the scale of the marketplace for firms inside the economic bloc
B) help firms increase the scale of operations and enhanced productivity
C) attract direct investment from outside the bloc
D) all of these
Answer: D
Difficulty: 1: Easy
Chapter: 1
Skill: Application
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

13) Which of the following is a disadvantage of economic integration?
A) trade creation
B) loss of sovereignty
C) increased voting influence of current members
D) easier to get consensus with a large number of member countries
Answer: B
Difficulty: 1: Easy
Chapter: 1
Skill: Application
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

14) Which of the following is the most likely reason for the establishment of the European Community?
A) broaden the power of communism within East Germany
B) create strict tariffs for trade and international business
C) commit to the removal of trade barriers between countries
D) establish judicial procedures to handle trade violators
Answer: C
Difficulty: 2: Moderate
Chapter: 1
Skill: Application
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

15) The European Union consists of how many nations?
A) 12
B) 27
C) 34
D) 46
Answer: B
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

16) The European Union is classified as a(n) ________.
A) international organization
B) regional economic group
C) special interest group
D) competing firm
Answer: B
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

17) Which of the following is responsible for implementing the decisions of the European Parliament and the European Council?
A) the Council of the European Union
B) the European Parliament
C) the European Court of Justice
D) the European Commission
Answer: D
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

18) Which of the following is a true statement about China?
A) The Chinese government's shift from communism to capitalism has led to an increase in FDI.
B) China attracts FDI because the government has eliminated elaborate bureaucracies.
C) The Chinese government manipulates market activities for political purposes.
D) China lacks an educated pool of employees due to slowly developing industrialization.
Answer: C
Difficulty: 3: Challenging
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

19) Which of the following countries is today known as the world's leader for outsourced back-office services and, increasingly, for high-tech services?
A) China
B) Brazil
C) Mexico
D) India
Answer: D
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

20) Which is the fourth largest trading bloc after the EU, USMCA, and ASEAN and established in 1991?
A) SAARC
B) ASEAN
C) USMCA
D) MERCOSUR
Answer: D
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

21) To which of the following free-trade agreements do Mexico, Canada and the United States all belong?
A) USMCA
B) ASEAN
C) CAFTA
D) MERCOSUR
Answer: A
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

22) ________ is the chance that political forces may change a country's business environment in ways that lead investors to lose some or all of the value of their investment or be forced to accept a lower-than-projected rate of return.
A) Governmental risk
B) Operating risk
C) Transaction risk
D) Political risk
Answer: D
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

23) Which of the following is NOT a way to deal with political risk?
A) use hedging (for example, local financing)
B) create dependency (for example, provide control distribution)
C) emphasize adaptation (for example, development assistance)
D) use diversion (for example, control all management decisions)
Answer: D
Difficulty: 1: Easy
Chapter: 1
Skill: Application
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

24) Which of the following best describes nationalization?
A) outsourcing of governmental functions to private entities
B) hiring preferences given to locals rather than expatriates
C) government's gradual and subtle actions against a firm
D) forced sale of an MNC's assets to local buyers
Answer: D
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

25) What occurs when a local government seizes and provides inadequate compensation for the foreign-owned assets of a multinational enterprise?
A) trade barrier
B) nationalization
C) expropriation
D) ethnocentrism
Answer: C
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

26) Expropriation is most likely to occur in a country that has ________.
A) numerous MNCs in operation
B) constant political upheaval and change
C) a capitalistic economic system in place
D) stable economic growth and political consistency
Answer: B
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

27) The government of Jonovia seizes all assets of Refresh, a world-famous, soft-drink brand in Jonovia, and offers compensation to the company. This action by the government of Jonovia is an example of ________.
A) private action
B) repatriation
C) privatization
D) expropriation
Answer: D
Difficulty: 2: Moderate
Chapter: 1
Skill: Application
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

28) Which of the following is an example of a macropolitical risk event?
A) a terrorist attack
B) forced sale of equity to host-country nationals
C) expropriation of corporate assets without prompt and adequate compensation
D) barriers to repatriation of funds
Answer: A
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

29) Zagreb Inc., a transnational energy company, negotiates a multimillion-dollar contract with the government to provide electricity to Pilladia. The government is voted out of power shortly after. The new government cancels all contracts it has with all oil companies but not contracts with firms in other industries. This is an example of ________.
A) barriers to repatriation
B) protectionism
C) confiscation
D) micropolitical risk
Answer: D
Difficulty: 2: Moderate
Chapter: 1
Skill: Application
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Analytical thinking

30) Intelligentia is attempting to do business in Bazania, but the Bazanian government purposely delays granting Intelligentia the necessary licenses and permissions required to conduct business in the country. Which of the following best describes this situation?
A) creeping expropriation
B) nationalization
C) barriers to repatriation
D) confiscation
Answer: A
Difficulty: 2: Moderate
Chapter: 1
Skill: Application
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

31) Micropolitical risk events are those that affect ________.
A) multiple industries and companies
B) several other nations in the same region
C) one industry or company or a few companies
D) domestic industries or companies
Answer: C
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

32) Recently, the level of ________ in Europe, for example, was a great concern around the world, in particular regarding concerns in the eurozone brought about by debt problems in Greece.
A) legal risk events
B) political risk events
C) cultural risk events
D) economic risk events
Answer: D
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

33) Expropriation of corporate assets without prompt and adequate compensation is an example of ________.
A) economic risk
B) political risk
C) legal risk
D) cultural risk
Answer: B
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

34) Country risk is considered similar to ________.
A) political risk
B) commercial risk
C) currency risk
D) cross-cultural risk
Answer: A
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

35) For autonomous international subsidiaries, most of the influence from political risks will be in which of the following areas?
A) financial operations
B) ownership and control
C) marketing and sales operations
D) managerial strategy and policy-making
Answer: B
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

36) For global corporations, the primary influence of political risks is likely to be on the firm's ________.
A) ownership and control
B) hiring and recruiting policies
C) transfers of money or products
D) managerial strategy and policy-making
Answer: C
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

37) An individual from a country with a high degree of political risk would most likely be from ________.
A) Canada
B) Singapore
C) Iraq
D) Malaysia
Answer: C
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

38) An individual from a country with a low degree of political risk would most likely be from ________.
A) Venezuela
B) Canada
C) Zimbabwe
D) Iraq
Answer: B
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

39) Which of the following characterizes country risk?
A) The political and legal systems of adjacent nations greatly influence the country risk of nations that host foreign firms.
B) Country risk will change only after the creation of laws and regulations that affect foreign firms.
C) A nation's country risk level remains fairly constant until the election and installation of a new political leader.
D) Country risk is always present, but its nature and intensity vary over time and from country to country.
Answer: D
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
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AACSB: Application of knowledge

40) ________ includes the initiation of joint ventures with nationals (individuals or those in firms, labor unions, or government) to reduce political risks.
A) Development assistance
B) Equity sharing
C) Localization of the operation
D) Participative management
Answer: B
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

41) Which of the following means of political risk reduction is best suited for firms that decide a high-risk environment is worth the potential returns?
A) avoidance
B) adaptation
C) hedging
D) dependency
Answer: B
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
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AACSB: Application of knowledge

42) Which of the following strategies is a firm most likely to use, if it initiates a joint venture with a local company in a foreign country, as a way of adapting to risk?
A) equity sharing
B) participative management
C) localization of the operation
D) development assistance
Answer: A
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

43) Which of the following means of adaptation to political risk requires that a firm actively involve nationals in the management of its subsidiary?
A) equity sharing
B) participative management
C) localization of the operation
D) development assistance
Answer: B
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

44) In addition to avoidance and adaptation, two other means of risk reduction available to managers are ________ and ________.
A) qualitative approach; quantitative approach
B) dependency; hedging
C) localization; development assistance
D) equity sharing; participative management
Answer: B
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

45) Which of the following is a form of protectionist policies?
A) patents
B) quotas
C) foreign direct investment
D) bribes
Answer: B
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

46) ________ poses a severe and random political risk to company personnel and assets, and interrupts the conduct of business.
A) Globalization
B) Nationalism
C) Privatization
D) Terrorism
Answer: D
Difficulty: 2: Moderate
Chapter: 1
Skill: Application
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

47) If a foreign-based firm borrows money from a host country bank as a hedge against being forced out of operation without adequate compensation, the firm is managing political risk with ________.
A) local debt financing
B) position control
C) development assistance
D) adaptation
Answer: A
Difficulty: 2: Moderate
Chapter: 1
Skill: Application
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

48) Political risk insurance and local debt financing are both forms of ________.
A) input control
B) adaptation
C) equity sharing
D) hedging
Answer: D
Difficulty: 3: Challenging
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

49) Which of the following is a form of hedging?
A) expatriate control in key positions
B) development assistance
C) local debt financing
D) localization of the operation
Answer: C
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

50) A country's ability or intention to meet its financial obligations determines its ________.
A) technological risk
B) legal risk
C) political risk
D) economic risk
Answer: D
Difficulty: 3: Challenging
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

51) Past court decisions serve as precedents to the interpretation of the law under ________.
A) civil law
B) common law
C) Sharia law
D) contract law
Answer: B
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

52) ________ is a legal system which is based on a detailed set of written rules and statutes that constitute a legal code.
A) International law
B) Civil law
C) Contract law
D) Common law
Answer: B
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

53) An international agreement which regulates international business by spelling out the rights and obligations of the seller and buyer is known as ________.
A) Agreement to Technical Barriers to Trade
B) International Standards on Accounting and Reporting
C) General Agreement on Tariffs and Trade
D) Contracts for International Sale of Goods
Answer: D
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

54) ________ is based on a comprehensive set of laws organized into a code.
A) Sharia law
B) Civil law
C) Common law
D) Contract law
Answer: B
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

55) The U.S. legal system is largely based on ________.
A) common law
B) social law
C) civil law
D) theocratic law
Answer: A
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

56) Which of the following terms refers to an agreement by the parties concerned to establish a set of rules for governing a business transaction?
A) charter
B) policy
C) contract
D) license
Answer: C
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

57) Under which law system must the details of the promises be written into a contract in order for it to be enforced?
A) common law
B) theocratic law
C) civil law
D) company law
Answer: A
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

58) A ________ is a right granted to the inventor of a product or process that excludes others from making, using, or selling the invention.
A) patent
B) trademark
C) watertight
D) copyright
Answer: A
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe
AACSB: Application of knowledge

59) ________ are words or symbols that distinguish a product and its manufacturer from competitors.
A) Patents
B) Trademarks
C) Watermarks
D) Copyrights
Answer: B
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe
AACSB: Application of knowledge

60) Tiffany's is an American jewelry store which discovers that several shops in developing countries are selling counterfeited necklaces under their name and label. Which of the following problems are they facing?
A) patent expiration
B) trademark infringement
C) copyright expiration
D) monopolization
Answer: B
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe
AACSB: Application of knowledge

61) Which of the following is an example of a trademark infringement?
A) manufacturers who sell different versions of their own products in different countries
B) manufacturers who sell counterfeit products under the names and logos of more famous brands
C) a company which exports factory rejects to developing countries
D) a company which sells products at half the price of their competitors
Answer: B
Difficulty: 3: Challenging
Chapter: 1
Skill: Concept
LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe
AACSB: Application of knowledge

62) Which of the following functions does a copyright perform?
A) It protects the trade secrets of an organization, including its business plans.
B) It prevents a company from monopolizing an invention.
C) It distinguishes the product and manufacturers from competitors through distinct words and symbols.
D) It gives creators of original work the freedom to publish or dispose of them as they choose.
Answer: D
Difficulty: 3: Challenging
Chapter: 1
Skill: Concept
LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe
AACSB: Application of knowledge

63) Which of the following is an advantage of e-business?
A) lower cost of production
B) easy availability of technology
C) convenience in conducting business worldwide
D) increased availability of information
Answer: C
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe
AACSB: Information technology

64) Regional economic groups greatly increase the scale of the marketplace for firms inside the economic bloc.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

65) India's economy grows because of its government, whereas China's economy grows in spite of it.
Answer: FALSE
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

66) China is now a hybrid market-driven economy—driven by competition, capital, and entrepreneurship.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

67) Small- and medium-sized enterprises contribute to their national economies by creating new jobs.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

68) The South Asia Association of Regional Cooperation (SAARC), is a free-trade pact among seven South Asian nations.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

69) USMCA is a treaty entered into by Canada, Mexico, and the United States.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Application
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

70) In 2018, the United States, Mexico, and Canada reached an agreement called the United States-Mexico-Canada Agreement (USMCA).
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Application
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

71) MERCOSUR is an example of an economic union.
Answer: FALSE
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

72) The level of integration of a customs union is greater than that of a free trade area.
Answer: TRUE
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

73) Nationalization describes government seizure of an entire industry, with or without compensation.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

74) Confiscation occurs when a local government seizes and provides adequate compensation for the foreign-owned assets of an MNC.
Answer: FALSE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

75) Confiscation is the seizure of assets without compensation.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

76) Expropriation occurs when a local government seizes and provides compensation for the foreign-owned assets of an MNC.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

77) Privatization refers to the forced sale of an MNC's assets to local buyers with some compensation to the firm, perhaps leaving a minority ownership with the MNC.
Answer: FALSE
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

78) The immediate cause of country risk is a legal or political factor.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

79) Country risk can be potentially present in all nations.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

80) Sustainability—economic, political, social, and environmental—has become a significant worldwide issue.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

81) An event that affects all foreign firms doing business in a country or region is called a micropolitical risk event.
Answer: FALSE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

82) An event that affects one industry or company or only a few companies is called a macropolitical risk event.
Answer: FALSE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

83) Subsidies can help counterbalance harmful consequences that disproportionately affect the poor.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

84) Political risk insurance and local debt financing are forms of dependency.
Answer: FALSE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

85) Under civil law, past court decisions act as precedents to the interpretation of the law and to common custom.
Answer: FALSE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

86) Islamic law is a reflection of the country's culture, religion, and traditions.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

87) Under common law, it is assumed a contract reflects promises that will be enforced without specifying the details in the contract.
Answer: FALSE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

88) A legal contract spells out the rights and obligations of each party and is especially important when relationships go awry. Contract law remains consistent from country to country, and firms must adhere to local standards.
Answer: FALSE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

89) Developing nations have the toughest product liability laws, while developed countries have more relaxed laws.
Answer: FALSE
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

90) Countries seldom impose protectionist policies, such as tariffs and nontariff barriers, quotas, and other import and trade restrictions, to give preference to their own companies and industries.
Answer: FALSE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

91) Civil law can be more adversarial than common law because civil law relies more on the need to interpret laws according to tradition, precedent, and usage.
Answer: FALSE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

92) The Internet has had a considerable influence on how companies buy and sell goods.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe
AACSB: Information technology

93) Communication is the process of transmitting information, and information are facts put in to a form to assist in decision making. In a multinational setting communication is not important.
Answer: FALSE
Difficulty: 1: Easy
Chapter: 1
Skill: Application
LO: 1-5: To explore essential skills for developing your career as a manager in a multinational company
AACSB: Application of knowledge

94) Critical thinking refers to the purpose-driven and goal oriented thinking that helps identify and solve problems, make decisions, and critique actions.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Application
LO: 1-5: To explore essential skills for developing your career as a manager in a multinational company
AACSB: Application of knowledge

95) Collaborative learning occurs when individuals work independently on projects, tasks, and problem solving.
Answer: FALSE
Difficulty: 1: Easy
Chapter: 1
Skill: Application
LO: 1-5: To explore essential skills for developing your career as a manager in a multinational company
AACSB: Application of knowledge

96) Knowledge application and analysis refers to the ability to learn particular concepts and frameworks and then apply them in various situations.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Application
LO: 1-5: To explore essential skills for developing your career as a manager in a multinational company
AACSB: Application of knowledge

97) Corporate Social Responsibility (CSR) refers to actions taken by a company that goes beyond that of maximizing profits.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Application
LO: 1-5: To explore essential skills for developing your career as a manager in a multinational company
AACSB: Application of knowledge

98) Business ethics are sets of moral principles that shape individual or organizational behavior within organizations.
Answer: TRUE
Difficulty: 1: Easy
Chapter: 1
Skill: Application
LO: 1-5: To explore essential skills for developing your career as a manager in a multinational company
AACSB: Application of knowledge

99) What is the European Union (EU)? Discuss how the EU affects both Europe and international managers working in Europe.
Answer: The EU now comprises a 27-nation, unified market of over 400 million people. Since the euro became a legally tradable currency, Europe's business environment has been transformed. The vast majority of legislative measures have been adopted to create an internal market with free movement of goods and people among the EU countries. The elimination of internal tariffs and customs, as well as financial and commercial barriers, has not eliminated national pride.
Global managers face two major tasks in the EU. One is strategic: how firms outside of Europe can deal with the implications of the EU and of what some have called a "Fortress Europe"–that is, a market giving preference to insiders. The other task is cultural: how to deal effectively with multiple sets of national cultures, traditions, and customs within Europe, such as differing attitudes about how much time should be spent on work versus leisure activities.
Difficulty: 3: Challenging
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

100) What is SAARC?
Answer: SAARC stands for South Asia Association of Regional Cooperation–an association of seven developing South Asian nations. According to the Agreement that was effective January 1, 2006, the countries will lower tariffs by 25% within three to five years and eliminate them within seven years. Trade in South Asia is estimated at $14 billion, although the majority of that trade will take place between India and Pakistan, the two largest members.
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

101) What is CAFTA-DR?
Answer: The Dominican Republic-Central America FTA (CAFTA-DR) is the first free-trade agreement between the United States and Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic. Collectively, the CAFTA member countries represent the 16th largest U.S. goods trading partner. Trade between the United States and the six CAFTA-DR partners has increased more than 71 percent since inception, from $35 billion in 2005 to $60 billion in 2013. However, U.S.-CAFTA trade dropped to $53 billion in 2015. (U.S. exports to the CAFTA-DR countries totaled $29 billion; imports totaled $24 billion.)
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make
AACSB: Application of knowledge

102) How does the phenomenon of ethnicity affect the international manager?
Answer: Ethnicity is a driving force of political instability around the world. Many uprisings and conflicts are expressions of differences in ethnic groupings, and religious disputes often lie at the heart of those differences. Managers must understand the ethnic and religious composition of the host country in order to anticipate problems of general instability as well as those of an operational nature—such as effects on their workforce, on production and access to raw materials, and also the market as a whole.
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Reflective thinking

103) What is political risk? Give an example of how political risk can affect an MNC.
Answer: Political risks are any government action or politically motivated event that could adversely affect the long-run profitability or value of the firm. For example, Bolivia nationalized its natural gas industry ordering foreign companies to give up control of fields and accept much tougher operating terms within six months or leave the country.
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

104) Describe how the political and legal systems of a host country can both harm and benefit a foreign firm.
Answer: The political and legal systems of a host country can be both beneficial and harmful to a foreign firm. Firms can benefit from preferential subsidies, government incentives, and protection from competition that reduce business costs and influences strategic decision making. Numerous governments encourage local MNE investment by offering tax holidays and cash incentives to employ local workers.

On the other hand, political or legislative actions can harm business interests. Laws may be unexpectedly strict or result in unintended consequences. Many laws favor host-country interests, that is, interests in foreign countries where the firm has direct operations.
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

105) Describe country risk and discuss how political and legal systems contribute to country risk. Explain the differences between political systems and legal systems in your answer.
Answer: Country risk is exposure to potential loss or adverse effects on company operations and profitability caused by developments in a country's political and/or legal environments. Also referred to as political risk, it is one of four major types of international business risks. While the immediate cause of country risk is a political or legal factor, underlying such factors may be economic, social, or technological developments. Government intervention, protectionism, and barriers to trade and investment are particularly notable in international business.

Mismanagement or failure of the national economy can lead to financial crises, recessions, market downturns, currency crises, and inflation. Such events usually arise from business cycles, poor monetary or fiscal policies, a defective regulatory environment, or imbalances in the underlying economic fundamentals of the host country.

Political or legislative actions can inadvertently harm business interests, such as laws that are unexpectedly strict or result in unintended consequences. Many laws favor host-country interests-that is, interests in foreign countries where the firm has direct operations.

A political system is a set of formal institutions that constitute a government. It includes legislative bodies, political parties, lobbying groups, and trade unions. The principal functions of a political system are to provide protection from external threats, establish stability based on laws, and govern the allocation of valued resources among the members of a society. A political system also defines how these groups interact with each other.

Each country's political system is unique, having evolved within a particular historical, economic, and cultural context. Political systems are also constantly evolving in response to constituent demands and the evolution of the national and international environment. Constituents are the people and organizations that support the political system and receive government resources.

A legal system is a system for interpreting and enforcing laws. Laws, regulations, and rules establish norms for conduct. A legal system incorporates institutions and procedures for ensuring order and resolving disputes in commercial activities, as well as taxing economic output and protecting intellectual property and other company assets. Political and legal systems are dynamic and constantly changing. The two systems are interdependent-changes in one affect the other. Adverse developments in political and legal systems give rise to country risk. They can result from installation of a new government, shifting values or priorities in political parties, initiatives developed by special interest groups, and the creation of new laws or regulations. Gradual change is easier for the firm to accommodate, while sudden change is harder to deal with and poses greater risk to the firm.

Unfavorable developments give rise to new conditions that may threaten the firm's products, services, or business activities. For example, a new import tariff may increase the cost of a key component used to manufacture a product. A modification in labor law may alter the hours the firm's employees are allowed to work. The installation of a new political leader may lead to government takeover of corporate assets.

Country risk is always present, but its nature and intensity vary over time and from country to country.
Difficulty: 3: Challenging
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

106) Identify and describe four means of political risk adaptation.
Answer: The four means of political risk adaptation are: (1) equity sharing—shared ownership or partial ownership with nationals; (2) participative management—actively involving nationals in the management of the firm; (3) localization of operations—modifications to the company's management style, company name, etc., to accommodate national issues; and (4) development assistance—corporate aid for infrastructure development.
Difficulty: 3: Challenging
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

107) What is currency translation exposure? Provide an example to illustrate your answer.
Answer: The risk of exchange-rate volatility results in currency translation exposure to the firm when the balance sheet of the entire corporation is consolidated, and may cause a negative cash flow from the foreign subsidiary. Currency translation exposure occurs when the value of one country's currency changes relative to that of another. When exchange-rate changes are radical, repercussions are felt around the world. For example, a U.S. company operating in Mexico at the time of the peso devaluation in the late 1990s meant that the company's assets in that country were worth less when translated into U.S. dollars. The company's liabilities, however, were also less.
Difficulty: 3: Challenging
Chapter: 1
Skill: Concept
LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face
AACSB: Application of knowledge

108) What is the difference between common law, Islamic law, and civil law?
Answer: In common law, past court decisions act as precedents to the interpretation of law. Civil law is based on a comprehensive set of laws organized into a code. Interpretations of civil law are based on reference to codes and statutes. In Islamic countries, such as Saudi Arabia, the dominant legal system is Islamic law; based on religious beliefs; it dominates all aspects of life. Islamic law is followed in approximately 27 countries and combines, in varying degrees, civil, common, and indigenous law.
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

109) What methods are used by MNCs to protect intellectual property rights?
Answer: The most common methods of protecting proprietary technology are the use of patents, trademarks, trade names, copyrights, and trade secrets. Various international conventions afford some protection in participating countries; more than 80 countries adhere to the International Convention for the Protection of Industrial Property, often referred to as the Paris Union, for the protection of patents. However, restrictions and differences in the rules in some countries not signatory to the Paris Union, as well as industrial espionage, pose continuing problems for firms trying to protect their technology.
Difficulty: 2: Moderate
Chapter: 1
Skill: Concept
LO: 1-3: To recognize the role of the legal environment in international business
AACSB: Application of knowledge

110) What is globalization? What is the relationship between globalization and information technology?
Answer: Globalization is defined as global competition characterized by networks of international linkages that bind countries, institutions, and people in an interdependent global economy. Information technology, more than anything else, is making those networks of international linkages more possible by boosting the efficiency of that "connectedness." The Internet is propelling electronic commerce around the world. Companies around the world are linked electronically with employees, customers, distributors, suppliers, and alliance partners in many countries making the world a global marketplace.
Difficulty: 3: Challenging
Chapter: 1
Skill: Concept
LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe
AACSB: Application of knowledge

111) How does the Internet facilitate both e-commerce and business-to-business transactions?
Answer: The Internet and e-business provide a number of uses and advantages in business-to-consumer transactions: (1) convenience in conducting business worldwide—facilitating communication across borders contributes to the shift toward globalization and a global market; (2) an electronic meeting and trading place, which adds efficiency in conducting business sales; (3) a corporate Intranet service, merging internal and external information for enterprises worldwide; (4) power to consumers as they gain access to limitless options and price differentials; and (5) a link and efficiency in distribution. Although most early attention was on e-commerce, experts now believe the real opportunities are in business-to-business (B2D) transactions where the Internet offers assistance with supply chain, procurement, and distribution channels.
Difficulty: 3: Challenging
Chapter: 1
Skill: Concept
LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe
AACSB: Information technology

112) What are some of the effects of various forms of technology have on international business?
Answer: The rapid advancement in Information Technology will continue to have a transformative effect on global business in all areas and businesses of all sizes. The speed and accuracy of information transmission are changing the nature of the global manager's job by making geographic barriers less relevant. Managers from around the world are recognizing the necessity of being able to access Information Technology.
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe
AACSB: Information technology

113) What is the meaning of the appropriateness of technology?
Answer: It involves the studying of the possible cultural consequences of the transfer of technology, requiring managers to assess whether the local people are ready and willing to change their values, expectations, and behaviors on the job to use new technological methods, whether applied to production, research, marketing, finance, or some other aspect of the business.
Difficulty: 1: Easy
Chapter: 1
Skill: Concept
LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe
AACSB: Information technology

114) What are the critical skills that will be needed by an individual involved in international business?
Answer: If you are an employee or someone planning to work in a multinational company or work for a company in another country, you need to develop five critical employability skills: (1) communication, (2) critical thinking, (3) collaboration, (4) knowledge application/analysis, and (5) business ethics/social responsibility.
Difficulty: 2: Moderate
Chapter: 1
Skill: Application
LO: 1-5: To explore essential skills for developing your career as a manager in a multinational company
AACSB: Application of knowledge

Instructor's Resource Manual

Revised by Susan Leshnower

International Management:
Managing Across Borders and Cultures – Text and Cases
Tenth Edition

Helen Deresky
Stewart R. Miller

Pearson

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Chapter Learning Objectives

1-1. To understand the global business environment and how it affects the strategic and operational decisions which managers must make

1-2. To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face

1-3. To recognize the role of the legal environment in international business

1-4. To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe

1-5. To explore essential skills for developing your career as a manager in a multinational Company

Opening Profile: Small Businesses Steel Themselves for No-Deal after Brexit

The opening section briefly describes the top risks involved in a no-deal Brexit. UK formally left the EU on 31 January 2020 and entered a transition period. Its trading relationship will remain the same; however, the UK is no longer in the European Parliament., 2020: Brexit will bring massive changes to business. New customs regulations could mean shipping delays as products wait at the port, resulting in lost revenue. Contracts will have to be redrawn and intellectual property protections reassured. Many companies lack the resources to prepare for a no-deal Brexit.

Introduction

What is International Management?

International management is the process of developing strategies, designing and operating systems, and working with people around the world to ensure sustained competitive advantage.

I. **The Global Business Environment**

A. Globalization

Global competition characterized by networks of international linkages that bind countries, institutions, and people in an interdependent global economy. Economic integration results from the lessening of trade barriers and the flow of goods and services, capital, labor, and technology around the world.
On a strategic level, Ghemawat argues that the business world is in a state of "semi-globalization"—that various metrics show that only 10 to 25 percent of economic activity is truly global.

B. Global Trends

1. The changing balance of growth toward emerging markets compared with developed

ones, along with the growing number of middle-class consumers in those areas.

a. The need for increased productivity and consumption in developed countries in order to stimulate their economies.
b. The increasing global interconnectivity—technologically and otherwise, as previously discussed, and, in particular, the phenomenon of an "electronically flattened earth" that gives rise to increased opportunity and fast-developing competition.
c. The increasing gap between demand and supply of natural resources, in particular to supply developing economies, along with the push for environmental protection.
d. The challenge facing governments to develop policies for economic growth and financial stability.
e. The growing number of emerging-market companies embracing digital technologies.

2. The results show renewed confidence in the economic recovery in the United States and Europe and that emerging economies are improving their rankings, but not enough to be in the top 25 (see Map 1-1).
3. The Boston Consulting Group's (BCG) 2018 list of Global Challengers shows evidence of the growing number of companies from emerging markets: companies that are growing faster than comparable companies are.

C. Backlash Against Globalization

1. Economic power and shifting opinions and ideals about politics and religion result in an increasing backlash against globalization and a rekindling of nationalism. Capitalism and open markets, most notably by Western companies, have propelled globalization. Now, digitally oriented multinational companies from China and India represent the new drivers of economic growth around the globe.
2. The rising nationalist tendencies are evident as emerging and developing nations—wielding their economic power in attempted takeovers and inroads around the world—encounter protectionism.

D. Effects of Institutions on Global Trade

1. Major groups of institutions play differing roles in globalization: World Trade Organization and International Labor Organization are examples of supranational institutions which are trying to promote the convergence of how international activities should be conducted. National institutions, in contrast, play a role in creating favorable conditions for domestic firms and may make it more difficult for foreign firms to compete in those countries.
2. Firms from any country now compete with companies at home and abroad, and domestic competitors are competing on price by outsourcing or offshoring resources and services anywhere in the world.

E. Effects of Globalization on Corporations

1. Global companies are becoming less tied to specific locations and their operations and allies are spreading around the world as they source and coordinate resources and activities wherever needed. Companies that desire to remain competitive will have to develop a cadre of experienced international managers.

F. Small and Medium-Sized Enterprises (SMEs)

1. Small companies also affect and, are affected by, globalism. They play a vital role in

contributing to their national economies through new job creation and employment, development of new products and services, and international operations such as exporting. There has never been a better time for SMEs to go global; the Internet is as valid a tool for small companies to find customers and suppliers around the world as it is for large companies. By using the Internet, email, and web-conferencing, small companies can inexpensively contact customers and set up their global businesses.

Discussion Question: Evaluate the statement by Thomas Friedman that the world is flat. Friedman analyzes globalization in the early 21st century. The title is a metaphor for viewing the world as a level playing field in terms of commerce, wherein all competitors have an equal opportunity. What is your opinion of this statement?

Teaching Resource: For latest statistics, have your students visit one of the following websites: World Trade Organization—www.WTO.org Financial Times—www.ft.com CEO Express—www.ceoexpress.com

G. The Globalization of Human Capital

1. Firms around the world have been offshoring manufacturing jobs to countries with lower wages for decades. Outsourcing is contracted to a local firm and integrated it into their global supply chains.
2. Firms realize that their cost advantage of producing abroad is disappearing because:
    - wages and other manufacturing costs in countries such as China are going up
    - transportation costs are increasing
    - risks involved in complex supply chains are more apparent
    - of continuing pressure to supply jobs at home
3. A growing number of U.S. firms are actively **reshoring** jobs back to the United States. During the period 2010 to 1Q 2018, 16 companies that reshored the most jobs, collectively brought back 73,000 manufacturing jobs to the United States.
4. For global firms, winning the "war for talent" is one of the most pressing issues, especially as hot labor markets in emerging markets are causing extremely high turnover rates.
5. Of all the technological development propelling international business today, the one that is transforming the international manager's agenda probably more than any other is information technology. The explosive growth of information technology is both a cause and an effect of globalization

Teaching Tip: *The Financial Times* has a regular monthly special section on information technology. See also Forbes online: http://www.forbes.com/technology/.

H. Regional Trading Blocs

1. **Regional economic groups** are "agreements among countries in a geographic region to reduce and remove tariff and nontariff barriers to the free flow of goods, services and factors of production between each other."

- A **free trade area (FTA)**, involves an agreement between countries that commits to removing all barriers to trade of goods and services among the member countries.
- A **customs union** refers to an agreement between countries that involves the removal of all barriers to the free flow of goods and services between member countries and establishment of a *common* trade policy with nonmember countries.
- A **common market** refers to an agreement between a group of countries that commit to the removal of all barriers to the free flow of goods and services, as well as factors of production—such as the free movement of labor and capital between member countries.
- In an **economic union**, member countries commit to the removal of all barriers to the free flow of goods, services, and factors of production between member countries.
- A **political union** consists of a central political system that directs and oversees economic, social, and foreign policies of the member states.

2. European Union
   In a watershed event, British citizens voted to leave the EU in its 2016 United Kingdom European Union membership referendum. As of 2020, the European Union (EU) will comprise a 27-nation unified borderless market, as shown in Map 1-2. The political fallout of Brexit has created a cloud of uncertainty pertaining to regulations, labor mobility, and trade between the UK and the rest of the EU member countries.
3. In spite of those problems, the World Economic Forum's 2018 Global Competitiveness (GCI) shows that six out of the top ten countries are in Europe (see Table 1-2). United States' rank rose from 3rd to 1st in three years.
4. Asia
   It would be difficult to overstate the power of the fundamental drivers of Asian growth. Asian economies have been enjoying a remarkable period of "productivity catch-up," adopting modern technologies, industrial practices, and ways of organizing—in some cases leapfrogging Western competitors. See Table 1-2.

Under the Lens: South-east Asia Wakes Up to Power of Corporate Competition
Mahathir Mohamad, Malaysia's prime minister in May [2018], brought a list of promises. He vows to root out corruption and review bloated China-backed infrastructure projects. He also wants to break up monopolies. Governments across south-east Asia are with him. Countries are recognizing that monopolies and anticompetitive practices threaten to undermine trade deals and hard-won economic integration. If they level the playing field, it could go a long way to making the bloc a more attractive place to do business. Mr. Mahathir ordered state-affiliated Telekom Malaysia to share its vast cable ducts for high-speed broadband. This will save new operators the expense of laying underground fibre optic networks and save the government the burden of processing approvals. The stakes are high. The Asian economy has been growing at an annual rate of about 5 percent over the past few years, but the pace may slow as markets mature. An effective framework for ensuring competition would help the region attract investors and maintain momentum.

Teaching Tip: Challenge your students to think about the "threat" associated with "free trade."

5. India

As the world's largest democracy and the third-largest economy, it is clear that there is much opportunity for foreign businesses in India with its population of 1.4 billion and great potential.

Because of its slow pace of reform and corruption, India is losing opportunities to other emerging markets that are more investor friendly. India ranked 11th on the A. T. Kearney 2018 FDI Confidence Index, as shown in Exhibit 1-1.

A common comparison between China and India notes that China's economy grows because of its government, whereas India's economy grows in spite of it.

Comparative Management in Focus: China Loses Its Allure

In 2018, China's official GDP growth rate was 6.4 percent. Nevertheless, the country is facing its slowest rate of economic growth in 30 years. A combination of forces, from flagging demand for exports to a sluggish property market, threaten to weigh down growth this year. Beijing's plan for managing the slowdown in growth this year has been a stronger-than-expected burst of fiscal stimulus. A Brookings Institution study suggests the economic slowdown may be more severe than previously acknowledged by the Chinese government. In 2018, China became the largest trading partner with the United States. In fact, more than 400 of the Fortune Global 500 companies are operating there. China is now a hybrid market-driven economy—driven by competition, capital, and entrepreneurship. China's vast population of low-wage workers, with continued large numbers moving to the cities to work, as well as its massive consumer market potential, have long attracted offshoring of manufacturing from companies around the world. However, the fact remains that state firms play a significant or dominant role. In addition, central, regional, and local political influences create unpredictability for businesses, as do the arbitrary legal systems.

6. South Asia

In South Asia, an agreement was signed in 1985 to form the South Asia Association of Regional Cooperation (SAARC), a free-trade pact among seven South Asian nations: Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka.

7. Oceania

Although not regarded as part of Southeast Asia but, rather, of the region called Oceania, which also includes New Zealand and neighboring islands in the Pacific Ocean, Australia did sign an ASEAN friendship treaty with Southeast Asia.

8. The Americas: From NAFTA to USMCA (United States-Mexico-Canada Free Trade Agreement

The goal of the North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico was to bring faster growth, more jobs, better working conditions, and a cleaner environment for all as a result of increased exports and trade. This trading bloc—one America—has 470 million consumers. Canada–United States trade is the largest bilateral flow between two countries. In addition, the vast majority—around 84 percent—of both Canadian and Mexican exports goes to the United States. Mexico is the United States' third largest trade partner (after Canada and China) and second largest export market for U.S. products.

9. Mercosur

This is the fourth largest trading bloc after the EU, NAFTA, and ASEAN. Established in

1991, it comprises the original parties—Brazil, Argentina, Paraguay, and Uruguay. Venezuela joined in 2012, but its membership has been indefinitely suspended since 2016.

10. Brazil
    The Federal Republic of Brazil is Latin America's biggest economy and the fifth largest country in the world in terms of land mass and population, with about 209 million people. According to the U.S. Department of Commerce, Brazil is the seventh largest economy in the world.
11. CAFTA-DR
    The Dominican Republic-Central America FTA (CAFTA-DR) is the first free-trade agreement between the United States and Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic. Collectively, the CAFTA member countries represent the 16th largest U.S. goods trading partner.
12. Other Regions in the World
    Sweeping political, economic, and social changes around the globe represent new challenges to international managers. The move toward privatization has had an enormous influence on the world economy. Economic freedom is a critical factor in the relative wealth of nations.

> *Teaching Tip*: Ask your students, "Can a country be successful if it has economic freedom but not political freedom?"

13. The Russian Federation
    Foreign investment in Russia, as well as its consumers' climbing confidence and affluence, did bode well for the economy—until the illegal annexation of Crimea (Ukraine) in 2014 and aggression toward the Ukrainian navy in 2018, which caused a considerable downturn in confidence and in the economy. According to the World Economic Forum's 2018 Global Competitiveness Report, the Russian Federation was ranked 43rd in the 2018 global competitive rankings, which is up two slots from 2017. Its global competitiveness has benefited from having a large market size and technological adoption.
14. The Middle East
    The Middle East has been experiencing transition. In the past, Middle Eastern governments in many countries across the region expected (or required) citizens to sacrifice a certain degree of individual economic prosperity in return for stability and security. This arrangement was made feasible by exports of natural resources and foreign aid. It led to government inefficiencies, pervasive subsidies, and government control over large parts of the economy. Unfortunately, this government-driven economic approach has proven unsustainable.
15. Developing Economies
    Developing economies are characterized by change that has come about more slowly as they struggle with low gross national product (GNP) and low per capita income as well as the burdens of large, relatively unskilled populations and high international debt.
16. The African Union (AU)
    The AU comprises the 53 African countries and was formed from the original Organization of African Unity (OAU) primarily to deal with political issues. According to the International Monetary Fund (IMF), seven of the world's ten fastest growing economies are in Africa. However, there continue to be many major problems in the region. Africa has received little interest from most of the world's investors, although it receives increasing investment from companies in South

Africa, the region's biggest economy. Trade between China and Africa has risen from $10 billion in 2000 to over $200 billion in 2018.

17. South Africa
    The South African economy grew steadily since 1998 amid a more stable political environment since the defeat of apartheid. However, its annual average GDP growth has slowed—hovering around 1 percent from 2016 through 2018. This is the longest upswing in the country's history although unemployment remains very high. Enjoying remarkable macroeconomic stability and a pro-business environment, South Africa is a logical and attractive choice for U.S. companies to enter the African continent.

I. **The Global Manager's Role**: Whatever your level of involvement, it is important to understand the global business environment and its influence on the manager's role. This complex role demands a contingency approach to dynamic environments, each of which has its own unique requirements. Within the larger context of global trends and competition, the rules of the game for the global manager are set by each country (see Exhibit 1-2): its political and economic agenda, its technological status and level of development, its regulatory environment, its comparative and competitive advantages, and its cultural norms.

II. The Political and Economic Environment

Proactive globally-oriented firms maintain an up-to-date profile of the political and economic environment of the countries in which they maintain operations. Surveys of top executives around the world show that **sustainability**—economic, political, social, and environmental—has become a significant worldwide issue.

A. According to the 2019 Aon report, the top ten risks overall were:

- Economic slowdown
- Regulatory/legislative changes
- Increasing competition
- Damage to reputation/brand
- Business interruption
- Acceleration of changes in market factors
- Cyber security
- Commodity price risk
- Cash flow/liquidity risk
- Inability to innovate/satisfy customer needs

1. **Political risks** are any governmental action or politically motivated event that could adversely affect the long-run profitability or value of a firm.
2. **Nationalization** refers to the forced sale of the MNCs assets to local buyers, with some compensation to the firm.
3. **Expropriation** occurs when the local government seizes the foreign-owned assets of the MNC providing inadequate compensation, if any at all.
4. **Macropolitical risk** events are those that affect *all* foreign firms doing business in a country or region; e.g., terrorism, the use or threat of use of anxiety inducing violence for political purposes. **Micropolitical risk** events are those that affect one industry or company or a few companies. **Terrorism** now poses a severe and random political risk.
5. The Political Risk Cont.
   - Expropriation of corporate assets without prompt and adequate compensation

- Forced sale of equity to host-country nationals, usually at or below depreciated book value
- Discriminatory treatment against foreign firms in the application of regulations or laws
- Barriers to repatriation of funds (profits or equity)
- Loss of technology or other intellectual property (such as patents, trademarks, or trade names)
- Interference in managerial decision making
- Dishonesty by government officials, including canceling or altering contractual agreements, extortion demands, and so forth

B. Political Risk Assessment

1. International companies must conduct some form of political risk assessment in order to manage their exposure to risk and to minimize financial losses.
2. Risk assessment by multinational corporations usually takes two forms: the use of experts or consultants and the development of internal staff and in-house capabilities. Both means may be used. The focus must be on monitoring political issues before they become headlines. The ability to minimize negative effects on the firm or to be the first to take advantage of opportunities is greatly reduced once developments have been reported in the news.

Teaching Tip: The U.S. State Department issues travel warnings when it decides, based on all relevant information, to recommend that Americans avoid travel to a certain country. Have students compare the travel warnings with current country risk ratings. Warning and other travel information can be found on the web at: http://travel.state.gov/.

Teaching Resource: The website http://money.cnn.com/ covers developments in Europe, Asia, Australia, and the Americas. Students can track issues by industry, region, or country. The State Department's website provides country information at http://www.state.gov.

3. For autonomous international subsidiaries, most of the impact from political risks will be at the level of ownership and control of the firm. For global firms, the primary risks are likely to be from restrictions (on such things as imports, exports, and currency) with the impact of the local level of the firm's transfers of money, products, or component parts.

C. Managing Political Risk

1. After assessing the potential political risk of investing or maintaining current operations in a country, managers face perplexing decisions on managing political risk. On one level, they can decide to suspend their firm's dealings with a certain country at a given point—either by the **avoidance** of investment or by the withdrawal of current investments (by selling or abandoning plants and assets). On another level, if they decide that the risk is relatively low in a particular country or that a high-risk environment is worth the potential returns, they may choose to start (or maintain) operations there and accommodate that risk through **adaptation** to the political regulatory environment. That adaptation can take many forms, each designed to respond to the concerns of a given local area.
2. Taoka and Beeman suggested these means of adaptation:

a. **Equity sharing** includes the initiation of joint ventures with nationals to reduce political risks.
b. **Participative management** refers to actively involving nationals, including those in labor organizations or government, in the management of the subsidiary.
c. **Localization** of the operation by modifying the subsidiary's name, management style, and so forth, to suit local tastes. Localization seeks to transform the subsidiary from a foreign firm to a national firm.
d. **Development assistance** includes the firm's active involvement in infrastructure development (foreign-exchange generation, local sourcing of materials or parts, management training, technology transfer, securing external debt, and so forth).

3. In addition to avoidance and adaptation, two other means of risk reduction available to managers are dependency and hedging.
   a. **Dependency**—keeping the subsidiary and host nation dependent on the parent corporation. It can be maintained with four methods:
      1. Input control—parent controls the key inputs.
      2. Market control—parent controls the means of distribution.
      3. Position control—key positions in the hands of expatriate or home office managers.

      Finally, even if the company cannot diminish or change political risks: **Hedging** (minimizing losses associated with political events) can take place through political risk insurance and local debt financing.

D. Managing Terrorism Risk

No longer is the risk of terrorism for global businesses focused only on certain areas such as South America or the Middle East. That risk now has to be considered in countries such as the United States, which had previously been regarded as safe. Eighty countries lost citizens in the World Trade Center attack on September 11, 2001. Many companies from Asia and Europe had office branches in the towers of the World Trade Center; most of those offices, along with the employees from those countries, were destroyed in the attack.

According to the 2018 Global Terrorism Index (GTI), Iraq, Afghanistan, Nigeria, Syria, and Pakistan have sat atop the ranking every year since 2013. Other notable countries listed in the 2018 GTI include India (8^{th}), Egypt (9^{th}), the Philippines (10^{th}), Turkey (12^{th}), the United States (20^{th}), the United Kingdom (28^{th}), and France (30^{th}).

Teaching Tip: A number of firms offer political risk consulting services. You could have your students search the web for some of these firms and report back the methodology that they employ.

E. Economic Risk

1. A country's level of economic development generally determines its economic stability and therefore, its relative risk to a foreign firm. Recently, the level of economic risk in Europe was a great concern around the world, in particular regarding concerns in the eurozone brought about by debt problems in Greece. In 2019, the Heritage Foundation published its annual Index of Economic Freedom (excerpted in Table 1-3), which covers 186 countries and is based on 12 specific freedoms such as rule of law, trade freedom,

business freedom, investment freedom, and property rights—all of which reduce economic risk.

2. A country's ability or intention to meet its financial obligations determines its economic risk. The economic risk incurred by a foreign corporation usually falls into one of two main categories; its investment in a specific country may become unprofitable if (1) the government abruptly changes its domestic monetary or fiscal policies, or (2) the government decides to modify its foreign-investment policies. The second situation would threaten the ability of the company to repatriate its earnings and would create a financial or interest-rate risk.
3. The risk of exchange-rate volatility results in currency translation exposure to the firm when the balance sheet of the entire corporation is consolidated and may cause a negative cash flow from the foreign subsidiary. See Table 1-3.

Teaching Tip: Ask students to choose a country and use the website www.reuters.com (click investing, and then currencies) to find out how much of that country's currency they would receive if exchanging $20. Then ask them to find out the cost of some basic items such as the cost of a combo meal at McDonald's, a movie ticket, and a Coca-Cola. How far does the money go there?

4. Currency translation exposure occurs when the value of one country's currency changes relative to another.
5. The four primary methods of analyzing economic risk: *quantitative*, *qualitative*, *combination of both*, and the *checklist approach*.

Teaching Resource: CNN financial networks *world financial markets*—of particular interest is their real-time update of stock market indices from every major market in Africa, Asia, Europe, and Latin America. http://www.cnnfn.com/markets/world_markets.html.

III. The Legal Environment

A. The prudent international manager consults both local and headquarters' legal services in order to comply with host country regulations and to maintain cooperative long-term relationships in the local area.
B. Although the regulatory environment for the international manager consists of the many local laws and the court systems in those countries in which he or she operates, certain other legal issues are covered by international law. International law is the law that governs relationships between sovereign nations. The United Nations Convention on Contracts for the International Sale of Goods (CISG) applies to contracts for the sale of goods between countries that have adopted the convention.
C. The manager of the foreign subsidiary or operating division will normally comply with a host country's legal system. There are three types of legal systems in the world: common law, civil law, and Islamic law.
   1. Under common law, used in the United States and 26 other countries of English origin, past court decisions act as precedents to the interpretation of the law.
   2. Civil law is based on a comprehensive set of laws organized into a code. About 70 countries, predominantly in Europe, use civil law.
   3. Islamic countries use Islamic law, which is based on religious beliefs. It is used in 27 countries and combines in varying degrees, civil, common, and indigenous law.

D. Contract Law
   1. A contract is an agreement by the parties concerned to establish a set of rules to govern a business transaction.
   2. International managers recognize that they will be preparing a contract in a very different legal context from their own.
   3. A contract in international business reflects the local legal system and political and currency risks in the country involved—legal consul in such matters is highly recommended.

E. Other Regulatory Issues
   1. Countries often impose protectionist policies, such as tariffs, quotas, and other trade restrictions, to give preference to their own products and industries.
   2. Tax systems influence the attractiveness of investing in a given country and affect the relative level of profitability for the MNC. Tax issues include:
      - foreign tax credits
      - holidays and exemptions
      - depreciation allowances
      - profit
      - value added tax rates

      Definitions of key items such as income and source vary across countries, as do reporting requirements.
   3. The level of government involvement in the economic and regulatory environment varies a great deal among countries and has a varying impact on management practices.

Teaching Resource: *Electronic Embassy*—The Electronic Embassy provides information on all of the embassies in Washington, D.C., with links to embassy websites. The site also includes an online newspaper, Embassy Flash, and an International Business Center for sponsors. This program also provides assistance to embassies and other international organizations in getting their information on the web. http://www.embassy.org/

IV. The Technological Environment

Jack Ma, cofounder and Executive Chairman CEO of Alibaba Group, has made several bold predictions for the digital age that will shape business for decades to come. He asserted that data lies at the heart of the digital age. He predicted, "In the next 30 to 40 years, globalization will empower 80 percent of countries, businesses, and people that have not benefited from globalization." From Mr. Ma's predictions, it is clear that the digital age will introduce a whole new level of global competition. For instance, he pointed out that "globalization . . . is increasingly in the hands of the people and the 'netpreneurs."

A. In a global information society, it is clear that corporations must incorporate into their strategic planning and their everyday operations the accelerating macro-environmental phenomenon of *technoglobalism*, in which the rapid developments in information and communication technologies (ICTs) are propelling globalization and vice-versa. Investment-led globalization is leading to global production networks, which results in global diffusion of technology to link parts of the value-added chain in different countries.

B. The Internet is propelling electronic commerce around the world. In fact, the ease of use and pervasiveness of the Internet raises difficult questions about ownership of intellectual property, consumer protection, residence location, taxation, and other issues.
C. New technology specific to a firm's products represents a key competitive advantage to firms and challenges international businesses to manage the transfer and diffusion of proprietary technology, with its attendant risks. Whether it is a product, a process, or a management technology, an MNC's major concern is the **appropriability of technology**—that is, the ability of the innovating firm to profit from its own technology by protecting it from competitors. Especially difficult is managing the transfer of technology to venture partners who might become future competitors.
D. An MNC can enjoy many technological benefits from its global operations. Advances resulting from cooperative research and development (R&D) can be transferred among affiliates around the world, and specialized management knowledge can be integrated and shared. However, the risk of technology transfer and pirating is considerable and costly.
E. Although firms face few restrictions on the creation and dissemination of technology in developed countries, less developed countries often impose restrictions on licensing agreements, royalties, and so forth, and have other legal constraints on patent protection.
F. The most common methods of protecting proprietary technology are through patents, trademarks, trade names, copyrights, and trade secrets. The International Convention for the Protection of Industrial Property, often referred to as the Paris Union, is adhered to by over 80 countries for protection of patents.
G. One of the risks to a firm's intellectual property is the inappropriate use of the technology by joint-venture partners, franchisees, licensees, and employees (especially those who move to other companies).
H. Global managers will want to evaluate the **appropriateness of technology** for the local government—especially in less developed countries. Studying the possible cultural consequences of the transfer of technology, managers must assess whether the local people are ready and willing to change their values, expectations, and behaviors at work and to use new technological methods.
I. The Globalization of Information Technology
The rapid advancement in IT and its applications around the world has had, and will continue to have, a transformative effect on global business for businesses of all sizes. The speed and accuracy of information transmission are changing the nature of the global manager's job by making geographic barriers less relevant. Indeed, managers and families around the world recognize the necessity of being able to access IT and are giving priority to that access over other lifestyle accoutrements. See Table 1-4.

Teaching Resource: Online publishing is an ever-changing landscape and, chances are, before long, you'll likely be faced with a security breach of some sort. How can you best prepare for the inevitable? Take a look at: https://www.forbes.com/custom/category/technology/.

Management in Action*: *Google to Set Up German Team to Tackle Privacy and Safety Issues
Google is assembling a team of engineers in Germany to tackle privacy and safety issues on its platforms as big tech companies try to quell a backlash over the harm caused by their products and services. The team will attempt to make privacy-focused changes for Google's products from a new "safety engineering center" in Munich. The team will work with privacy specialists

in Google offices across Europe and globally. The engineers in Munich had made it easier for users to find privacy controls while browsing the web. However, activists have cautioned that default settings still allow Google to collect data on users. A peer-reviewed study of Android apps revealed how data from smart-phones are harvested and shared, with nearly 90 percent of Google Play apps set up to transfer information back to Google. Google was slapped with a penalty from the French data protection authority for failing to be transparent about how it uses data and not having a legal basis for personalizing ads. It is challenging the fine.

J. Global E-Business is an important aspect of the changing technological environment.

1. **E-business** is the integration of systems, processes, organizations, value chains, and entire markets using Internet-based and related technologies and concepts. It enhances global competitiveness by providing efficiencies throughout the value chain. For instance, with a global portal, businesses can contact and negotiate with suppliers and buyers worldwide.
2. **E-commerce** refers directly to the marketing and sales process via the Internet. The Internet and e-business provide a number of advantages in global business such as the following:
   - Convenience in conducting business worldwide; facilitating communication across borders contributes to the shift toward globalization and a global market
   - An electronic meeting and trading place, which adds efficiency in conducting business sales
   - A corporate intranet service, merging internal and external information for enterprises worldwide
   - Power to consumers as they gain access to limitless options and price differentials
   - A link and efficiency in distribution
3. Although most media attention has focused on e-commerce and the end consumer, greater opportunities exist in **B2B** (business-to-business) transactions. However, problems include internal obstacles and politics, difficulties in coordination and in balancing global versus local e-commerce, languages and cultural differences, and local laws.
4. Barriers to e-business also include a lack of readiness of partners in the value chain, such as suppliers. In other areas of the world, barriers to creating global e-businesses include differences in physical, information, and payment infrastructure systems. In such countries, innovation is required to use local systems for implementing a web strategy.

Teaching Tip: Websites like Forrester Research (www.forrester.com) and E-marketer (www.emarketer.com) provide regular updates on all facets of electronic commerce including statistics on the current state of B2B transactions online. Students can visit online or request updates delivered to their email accounts.

Teaching Resource: A website of interest to students of international management is http://globaledge.msu.edu. The site contains a wealth of information and can be assigned with specific questions in mind.

V. Developing Skills to Enhance Your Career

A. Communication

In a multinational setting, cross-border communication becomes challenging as individuals may speak and listen in a nonnative language as well as differ with respect to the use of verbal and nonverbal communications.

B. Critical Thinking

Critical thinking refers to purpose-driven and goal-oriented thinking that helps to identify and solve problems, make decisions, and critique actions. The end-of-chapter discussion questions, application exercises, and experiential exercises are intended to think about concepts and framework at a deeper level.

C. Collaboration

Collaborative learning occurs when individuals work together on projects, tasks, and problem solving. Several of the application exercises and experiential learning exercises are intended to be group-based.

D. Knowledge Application and Analysis

Knowledge application and analysis refers to the ability to learn particular concepts and frameworks and then apply them in various situations.

E. Business Ethics/Social Responsibility

Business ethics are sets of moral principles that shape individual and organizational behavior within their operating environments. Corporate social actions (e.g., environmental protection, work conditions) that go above and beyond what is required by law.

Teaching Resource: An international business job description includes workers who represent the public face of their companies. They act with knowledge, elegance, and cultural sensitivity to facilitate deals and transactions that benefit both parties. Common job titles in international business include the Import/Export agent. Using Internet research, students can research entry-level international jobs and report their findings to the class.

Chapter Discussion Questions

1-1. Poll your classmates about their attitudes toward globalization. What are the trends and opinions around the world that underlie those attitudes?
Learning Objective: 1-1; AACSB: Diverse and multicultural work environments

Opinions and comments will vary concerning the issue of globalization, and it is important that the differing opinions be allowed to be expressed. There is a concern that globalization destroys cultures, benefits only wealthy countries, hurts the environment, and lowers wage rates. Each of these issues could be addressed in a discussion of student opinions concerning globalization. Students can discuss how the COVID-19 virus has affected globalization.

1-2. How has the economic downturn impacted trends in protectionism and nationalization?
Learning Objective: 1-1; AACSB: Diverse and multicultural work environments

As the fallout from the financial meltdown spread around the world, there were nationalist impulses government maneuvers to take stakes in ailing industries were verging on partial or full nationalization—though, for the most part, not forcing it. Japan, for example, took a cue from the United States in taking majority stakes in major banks; while in Russia, the Kremlin was exploiting the economic crisis to establish more control over industries that it had long coveted, such as energy. Managers need a global orientation to meet the challenges of world markets and rapid, fundamental changes in a world of increasing economic interdependence.

1-3. Discuss examples of recent macropolitical risk events and the effect they have or might have on a foreign subsidiary. What are micropolitical risk events? Give some examples and explain how they affect international business.
Learning Objective: 1-2; AACSB: Diverse and multicultural work environments

An event that affects all foreign firms doing business in a country or region is called a macropolitical risk event. In many regions, terrorism poses a severe and random political risk to company personnel and assets and can, obviously, interrupt the conduct of business. The increasing incidence of terrorism around the world concerns MNCs. In particular, the kidnapping of business executives has become quite common. In addition, the random acts of violence around the world have a downward effect on global expansion, because of the difficulty in attracting and retaining good managers in high-risk areas, as well as the expense of maintaining security to protect people and assets and the cost of insurance to cover them. Companies that go ahead and invest in those high-risk areas do so with the expectation of a higher profit premium to offset risk.

An event that affects one industry or company or only a few companies is called a micropolitical risk event. Such events have become more common than macropolitical risk events. Such micro-action is often called "creeping expropriation," indicating a government's gradual and subtle action against foreign firms. This is a situation that occurs when you haven't been expropriated, but it takes ten times longer to do anything. Typically, such continuing problems with an investment present more difficulty for foreign firms than do major events that are insurable by political-risk insurers.

1-4. What means can managers use to assess political risk? What do you think is the relative effectiveness of these different methods? At the time you are reading this, what countries or areas do you feel have political risk sufficient to discourage you from doing business there?
Learning Objective: 1-2; AACSB: Analytical skills

Risk assessment by multinational corporations usually takes two forms.

* One uses experts or consultants familiar with the country or region under consideration. Such consultants, advisers, and committees usually monitor important trends that may portend political change, such as the development of opposition or destabilizing political parties. They then assess the likelihood of political change and develop several plausible scenarios to describe possible future political conditions.
* A second and increasingly common means of political risk assessment used by MNCs is the development of internal staff and in-house capabilities. This type of assessment may be accomplished by having staff assigned to foreign subsidiaries, by having affiliates monitor local political activities, or by hiring people with expertise in the political and economic conditions in regions critical to the firm's operations.

The effectiveness would depend on exactly what kind of risk the firm is facing; frequently, all means are used. The focus must be on monitoring political issues before they become headlines; the ability to minimize the negative effects on the firm—or to be the first to take advantage of opportunities—is greatly reduced once the news spreads. No matter how sophisticated the methods of political risk assessment become, nothing can replace timely information from people on the front line. In the highest-risk countries in the world, such as Iraq, Syria, Yemen, and Libya, political instability and violence are the main risks to the regional economic outlook.

1-5. Can political risk be managed? If so, what methods can be used to manage such risk, and how effective are they? Discuss the lengths to which you would go to manage political risk relative to the kinds of returns you would expect to gain?
Learning Objective: 1-2; AACSB: Analytical skills

On one level, they can decide to suspend their firm's dealings with a certain country at a given point—either by the avoidance of investment or by the withdrawal of current investment (by selling or abandoning plants and assets). On another level, if they decide that the risk is relatively low in a particular country or that a high-risk environment is worth the potential returns, they may choose to start (or maintain) operations there and to accommodate that risk through adaptation to the political regulatory environment. Some of the methods used to manage political risk are as follows: equity sharing, participative management, localization of the operation, and development assistance. In addition to avoidance and adaptation, two other means of risk reduction available to managers are dependency and hedging. Multinational corporations also manage political risk through their global strategic choices. Many large companies diversify their operations both by investing in many countries and by operating through joint ventures with a local firm or government or through local licensees. By involving local people, companies, and agencies, firms minimize the risk of negative outcomes due to political events. The returns you would expect to gain would be the healthy continuation of your firm's business. Firms can minimize loss through hedging which includes, for example, political risk insurance and local debt financing.

1-6. Discuss the importance of contracts in international management and how contracts are viewed in other countries. What steps must a manager take to ensure a valid and enforceable contract?
Learning Objective: 1-3; AACSB: Diverse and multicultural work environments

Because international managers must operate in a variety of cultures and under a variety of legal systems, it is imperative that they prepare contracts carefully through consulting with experts in international law. Contracts reflect the local legal system and political and currency risks in the country involved, so allowances should be incorporated into foreign contract agreements to take account of the social and business culture and the country's international reputation. The warranties or guarantees that a company offers with its products should be carefully designed and limited to conditions under its control. The firm must either incorporate political risk assumptions into the contract or make appropriate contingency plans.

1-7. Discuss the effects of various forms of technology on international business. What role does the Internet play? Where is this all leading? Explain the meaning of appropriability of technology. What role does this play in international competitiveness? How can managers protect the proprietary technology of their firms?
Learning Objective: 1-4; AACSB: Integration of real-world business experiences

Firms have globalized their supply chain, creating a higher level of inter-connectedness. This results in and creates a greater flow of technology transfer. At the same time, information technology has produced a more time-sensitive environment for international managers. The Internet has become a pervasive force in accelerating communications to and among businesses and consumers. E-commerce creates a global market opportunity for smaller companies. *Appropriability of technology* concerns the ability of the innovating firm to profit from its own technology by protecting it from competitors. Many legal clashes have come from disputes about the appropriability of technology, such as the battle between Texas Instruments and Fujitsu. The increased use of technology is moving us toward a faster, and in some cases, more fragmented marketplace. The most common methods of protecting proprietary technology are through patents, trademarks, trade names, copyrights, and trade secrets. The International Convention for the Protection of Industry Property, often referred to as the Paris Union, is adhered to by over 80 countries for protection of patents.

1-8. Discuss the risk of terrorism. What means can managers use to reduce the risk or the effects of terrorism? Where in the world, and from what likely sources, would you anticipate terrorism?
Learning Objective: 1-1; AACSB: Analytical skills

Terrorism (the use or threat of use of anxiety-inducing violence for political purposes) is on the rise internationally, particularly in the form of kidnapping of business executives. The most common means of combating terrorism involve the use of political risk techniques and the implementation of contingency plans. Most firms operating abroad today, as well as many domestic firms, must plan for possible terrorism events and how the firm will be able to respond to its customers and employees in the event of such an event. Most students will probably identify Middle Eastern countries as most-likely sources of terrorism activity. Although this may be true, a significant internal threat exists in the United States and Europe as well.

Application Exercises

1-9. Do some further research on the technological environment. What are the recent developments affecting businesses and propelling globalization? What problems have arisen regarding use of the Internet for global business transactions, and how are they being resolved?
Learning Objective: 1-4; AACSB: Integration of real-world business experiences

Technology is influencing global business as never before, and the rate of change is not expected to diminish any time soon. Technology is increasing the speed and quantity of information. Information can be sent instantly to almost any part of the world, and employees and customers have unprecedented access to information about companies. Technology has caused some convergence of tastes and preferences, making the marketing of products internationally easier. Increases in information and logistical abilities have made geographic borders less relevant. All of these advancements have propelled globalization. At the same time, the Internet has created the potential for a more democratic world, in which anyone with Internet access can express their opinions and voice their concerns. Use of the Internet in e-commerce—in particular, in business-to-business (B2B) transactions—and for intracompany efficiencies has become a critical factor in global competitiveness. However, some of the information intended for electronic transmission is currently subject to export controls by an EU directive intended to protect private information about its citizens. In addition, some countries, such as China, monitor and limit electronic information flows. So, perhaps IT is not yet borderless but rather is subject to the same norms, preferences, and regulations as human cross-border interactions.

1-10. **Consider recent events and the prevailing political and economic conditions in the Russian Federation. As a manager who has been considering investment there, how do you assess the political and economic risks at this time? What should be your company's response to this environment?**
Learning Objective: **1-2; AACSB: Diverse and multicultural work environments**

The political and economic situation in Russia is troubling to many international managers, especially the recent political developments. Beginning with the Yukos action, confidence in the transparency and honesty of the Russian government has been called into question. The situation has only been made worse by recent allegations of misdeeds by the current government, including the murder of political opponents and critics. The energy resources of the country have allowed the government to act in a more aggressive manner, and it is anticipated that those resources will continue to allow such aggression for some time. It is prudent that international managers continually assess the political situation and take steps to avoid adverse actions. With the exception of the energy sector, Russia may not appear to be a good investment at this time. In some cases, partnering with reputable and powerful local businesspeople or businesses may be an acceptable means of reducing political risk. However, it is critical that the potential return from such investments match the increasing risk.

Teaching Resource: A good source of information on political risk, and an example of a company that assesses political risk can be found at: www.prsgroup.com.

Experiential Exercise

In groups of three, represent a consulting firm. You have been hired by a diversified multinational corporation to advise it regarding the political and economic environment in different countries. The company wants to open one or two manufacturing facilities in Asia. Choose a specific type of company and two specific countries in Asia and present

them to the class, including the types of risks that would be involved and what steps the firm could take to manage those risks.
Learning Objective: 1-2; AACSB: Diverse and multicultural work environments

There is no "right" answer to this exercise. It may be useful to begin a discussion of the benefits of a "China plus one strategy." Using this framework, China is selected as a manufacturing location, but an additional Asian country is selected as protection against political risk. China is fast becoming the manufacturing hub of the world; however, China has had a long history of political and social disruption, especially when income disparity rises. The current disparity between urban and rural incomes is a source of concern. Rising costs in China are also a concern to potential investors. The emerging economies of Southeast Asia represent a desirable option. For example, while China is struggling with the pandemic and is losing the confidence of foreign investors, proven resilience is pushing Vietnam to the fore as an ideal investment and manufacturing hub for Southeast Asia.

End-of-Chapter Case: ***Harley-Davidson Sees $120m Hit from Tariffs This Year***

1-11. What options does a company have to guard against being caught in a tariff trade war, as was the case in 2019?
Learning Objective: 1-1; AACSB: Analytical skills

Companies can change their venue to avoid tariffs. Managers at Harley faced tariffs of 25 percent in the EU and China, and 10–25 percent on some of the components it imports into the U.S. To lessen the impact of the European and Chinese tariffs, Harley managers opened up a plant in Thailand, despite criticism by Mr. Trump. Harley utilizes the new plant to make products, targeting international markets, following a plan set out in 2017, before the latest round of tariffs. Harley managers decided to produce the majority of its motorcycles for the EU, China and Asian markets in Thailand, and as a result, the cost of tariffs should be much lower in 2020. The terms of the U.S.-China trade war change often, but the tariff escalations have inflicted documented economic damage on both countries.

1-12. Analyze on the tariff trade war with China and its effects on Harley-Davidson.
Learning Objective: 1-1; AACSB: Application of knowledge

America's trade war with China has had a major impact on companies such as Harley Davidson. Harley's chief financial officer, told analysts that the company expected additional tariff costs on its exports and imports to be approximately $100m–$120m, equivalent to about a fifth of the $531m net income it reported for 2018. That impact is on top of the effect of the Trump administration's new tariffs on steel and aluminum imports. Harley's raw materials costs were up $17m last year, and Mr. Olin said "the primary driver of that was the tariffs."

1-13. What obligations does a company like Harley-Davidson have and to whom?
Learning Objective: 1-1; AACSB: Reflective thinking

Harley's primary obligations are to its customers and shareholders. By producing excellent products at reasonable prices, Harley is satisfying both groups. Harley is not obligated to sacrifice either group to the vision of increasing America's employment numbers. Companies can source product, technology, and parts etc. from all over the world to get the best possible mix.

Source: https://www.piie.com/publications/policy-briefs/us-china-trade-war-both-countries-lose-world-markets-adjust-others-gain

Student Stimulation
Group or Class Learning Activities

1. Students are often unaware of the physical distances involved in global business. A simple quiz or game can be an effective class exercise. Ask students to compare the distances between sets of U.S. cities and sets of international destinations.
   a. Which is the greater travel distance?
      New York to San Francisco OR Hong Kong to Singapore
      Miami to St. Louis OR Paris to Moscow
      Portland, Maine to Portland, Oregon OR Seoul, Korea to Hong Kong
   b. Which city is further south?
      Monterey, Mexico OR Tampa, Florida
      Mexico City OR Singapore
      Paris OR New York
2. *Branding* and *Ethnocentrism*: Ask your students to identify the national origin of a variety of products/brands. After they have written their answers, show the correct ones. Ask why they thought certain brands came from the countries they originally named.
   Some effective brands for this exercise include:
   Disney (United States)
   Michelin (France)
   Bayer (Germany)
   Shell Oil (Netherlands)
   Nestle (Switzerland)
   Outback Steakhouse (United States)
   Burger King (UK)
   Yoplait (United States)
   SAAB (Sweden)
   Volvo (United States—Ford)
   Jaguar (United States—Ford)
3. *Experiencing currency translation exposure:* Ask students to imagine that they are employed by an American MNC in Europe. They are paid in Euros but in a few days they will be sent home to the United States and will need to change their earnings into dollars. Check the exchange rates on "payday" and again on the day they will "return home." Did the rate change during those days? Did it benefit or harm the students in terms of the amount of dollars they were able to get in exchange for their euros?
4. *Assessing political risk activity*: Assign students three countries in relatively close proximity to each other (e.g., India, Pakistan, Nepal; or Thailand, Malaysia, and Singapore). Have the students develop a risk comparison of three countries for presentation in the next class

period. Discussion questions should probe learning experiences from both the process and the outcomes. *In terms of process*: To what extent was the information you desired readily available? Did the criteria allow you to differentiate between the countries? Could you envision other criteria that might also be important (students may mention terrorism, personal safety of executives)? *In terms of content*: Which country was the least risky? Most risky? Is risk alone an adequate criteria for foreign investment? How likely is it that the profile of the country you have chosen will be the same next year? Over the next five years?

5. Interviewing a foreign manager (or a returning ex-pat can be very insightful. For the undergraduate, the idea is to come into contact with someone who has "walked the walk" and can give students a more enriched viewpoint on an international assignment or career. Students often find managers who were returning expatriates and had "bad experiences" of foreign adjustment. If they interview people from their own cultures, they often find cynicism about how "we do things home" compared with behavior overseas. If they interview foreigners working locally, they often discover how difficult it is for others to adapt to "our" culture. Students can share their findings with the class or work in small groups.

Additional Stimulation Discussion Questions

1. A major issue in global business is the protection of intellectual property rights. Have you used websites like galaxyaudio.com or morpheus.com? Are such uses a violation of intellectual property rights? Why or why not? How might such issues become relevant to global business?
2. What are some things you can do to prepare yourself for a business career involving international assignments?
3. What advantages does a bilingual or multilingual manager have over someone who is monolingual?
4. How might the computer revolution and other forms of information technology make it easier for companies to compete globally?
5. Do you feel prepared to work in a multicultural environment? Why or why not?
6. Do you see any advantages for small companies when competing against larger companies on a global scale?
7. If you had the opportunity to work abroad after graduation and could choose any country, which would you choose and why?
8. Would you be willing to accept a "plum" promotion overseas if it entailed possible exposure to terrorist activities, either directly or indirectly? What incentives and other inducements would an international company have to provide you in order for you to work in a politically unstable region?
9. What do you think would be some of the main difficulties of operating a Western company in an Islamic country under Muslim law? Would you be comfortable working in such a situation if you held what you considered to be an ideal job?

Web Exercise

The text describes how the financial crisis and global pandemic have hit many industries hard, in fact crippling some and forcing others to retrench or downsize. The fact is that many companies

have had to rethink what they previously assumed to be long-view growth patterns in terms of international strategy and global network structure. In addition to specific companies and industries, entire countries have also found that their position within the global business environment has changed—some for better, some for worse.
Look at the following websites and develop an argument that shows how a financial crisis might completely change the thinking of global strategists in individual companies and in foreign governments?
East Asia Economics Forum
http://www.eastasiaforum.org/tag/global-financial-crisis/
The Economist
http://www.economist.com/world/asia/displaystory.cfm?story_id=14506580
Mexico Economy
https://www.worldbank.org/en/country/mexico/overview
BBC News
https://www.bbc.com/news
Global Times
https://www.globaltimes.cn/

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IBS Center for Management Research

Teaching Note:

Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

*This teaching note was written by **Syeda Maseeha Qumer** and **Debapratim Purkayastha,** IBS Hyderabad.*

This case **won the First Prize in the 2018 oikos Case Writing Competition (Corporate Sustainability track),** organized by oikos International, Switzerland.

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BECG/159

Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

TEACHING NOTE

ABSTRACT

The case discusses the global food processing giant Nestlé's problems relating to modern slavery in its cocoa supply chain. The company faced allegations of using child labor in its cocoa supply chain in Ivory Coast and was also accused of failing to disclose this to customers at the point of sale. Some critics argued that Nestlé was not doing enough and was not being transparent enough in its efforts to eliminate child labor within its global cocoa supply chain. However, in a rare disclosure, Nestlé reported in 2015 that it had uncovered forced labor in its seafood supply chain in Thailand. Magdi Batato (Batato) Executive Vice President and Head of Operations at Nestlé said that the company was committed to preventing and eliminating child labor in its supply chain. *Analysts wondered whether Nestlé's* admission of slavery was honest or was just an attempt to fend off child labor allegations in other parts of its business and bring consumers onside.

The case explores how modern slavery is a complex supply chain issue for Nestlé and why it needs to be addressed. Though Nestlé had implemented an action plan to combat slavery within its supply chain, the obnoxious practice still permeated West African cocoa farms, and was in fact on the rise. Nestlé had tried to maintain ethical and environmental standards within its supply chain but how well these initiatives matched up to the challenges of modern slavery was still questioned by its critics. According to them child labor in Nestlé's cocoa supply chain was a complex issue and gathering reliable evidence about what was happening on the ground would not only be vital, but also challenging for Batato. Given its global scale and influence, can Nestlé play a crucial role in eliminating slavery from the global cocoa supply chain? Can Batato lead the company's ongoing commitment to tackle slavery? Can its commitment go far enough to enact change and put an end to modern slavery in the global cocoa industry? How?

TEACHING OBJECTIVES AND TARGET AUDIENCE

This case is designed to enable students to:

- Understand the concept of modern slavery, its various forms, and the need for companies to address this issue
- Understand the relationship between modern slavery, CSR and Corporate Sustainability
- Identify the barriers to eliminating modern slavery
- Evaluate the actions taken by Nestlé's to combat slavery in its supply chains and identify the challenges faced by the company in dealing with the issue
- Explore ways through which Nestlé can eliminate modern slavery from its cocoa supply chain

This case is meant for MBA students as a part of their Corporate Sustainability/ Corporate Social Responsibility/ Business Ethics curriculum. It can also be used in the Operations Management/ Supply Chain Management curriculum.

LINKAGES TO THEORY

- Modern Slavery; Theoretical framework of modern slavery; Modern slavery and Corporate Social Responsibility; Human rights as a Management issue; Human rights and sustainability; Businesses as human rights advocates;
- Carroll's Pyramid of CSR; Managing change
- Ethical supply chain; Supply chain mapping; Supply chain audit

TEACHING THE CASE

Ideally, the case may be distributed 2-5 days before the class. In the classroom, the case instructor can initiate the discussion by giving a brief introduction about the case and how companies are facing the heat related to modern slavery **(5 minutes)**. This can be followed up with a discussion regarding Nestlé battling allegations of abetting child slavery in cocoa plantations in Ivory Coast while at the same time admitting to forced labor in its seafood supply chains in Thailand. The ethical dilemma facing Nestlé over the existence of slavery in its cocoa supply chains and the steps taken to combat it can also be touched upon. The instructor can take the discussion further with the help of the following questions.

1. What is modern slavery? Where does it fit in with a company's CSR strategy? **(10 minutes)**
2. What are the conditions enabling slavery in cocoa supply chains in Ivory Coast? **(10 minutes)**
3. Why is tackling the issue of modern slavery so important for a company like Nestlé? **(10 minutes)**
4. Investigate the existence of modern slavery in Nestlé's supply chains and its efforts to address the issue. **(15 minutes)**
5. Discuss the key challenges Nestlé faced while addressing modern slavery in its cocoa supply chain. **(10 minutes)**
6. What more should Nestlé do to mitigate the risk of modern slavery in its cocoa supply chain? **(15 minutes)**

The learning from the case may be summarized at the end of the class **(5 minutes)**.

ANALYSIS

1. *What is modern slavery? Where does it fit in with a company's CSR strategy?*

   The first modern definition of slavery appeared in the 1926 League of Nations Slavery Convention, which defined slavery as "the status or condition of a person over whom any or all of the powers attaching to the right of ownership are exercised" (Allain, 2009). Modern slavery can take several forms including forced labor, debt-bondage, child labor, wage exploitation, human trafficking, forced marriage, involuntary domestic servitude, or any other practice wherein victims are coerced through physical or mental threat to engage in unreasonable work. Increasing globalization means that nearly every corporation is exposed to the risk of forced labor and human trafficking in its supply chain. Modern slavery affects virtually all industries and can occur at any stage in the supply chain. It exists because it is profitable. Companies benefit hugely from cost savings through use of modern slavery (Crane, 2013). Forced labor within corporate global supply chains is a particularly elusive form of modern slavery that has been addressed the least. The ILO predicts that out of the 20.9 million victims of modern slavery globally, 14.2 million are victims of forced labor ***(See case exhibit).***

The external factors that influence slavery can be broken down into conditions related to the industry context and to the broader institutional context (Scott, 2001). The institutional context captures socioeconomic, geographic, cultural, and regulatory factors. A theoretical framework proposed by Crane (2013) identifies the economic and institutional conditions that give rise to modern slavery ***(See TN Exhibit I).***

Modern Slavery, CSR and Corporate Sustainability

CSR refers to 'the integration of social, environmental, and economic concerns into business operations'. It is distinctive from, though related to, the business and human rights agenda. In response to increased concerns about the social environmental impact of their supply chain and to the growing importance of CSR, several companies have adopted codes of conduct that extend to their suppliers. In terms of CSR, modern slavery is one among a number of social risks to be taken into account by corporations when assessing what is in the best financial interests of shareholders.

A business is expected to operate in an ethical manner and an obligation that it will do what is right, just, and fair and to avoid or minimize harm to all the stakeholders with whom it interacts. Business is expected to be a good corporate citizen, that is, to give back and to contribute financial, physical, and human resources to the communities of which it is a part. Application of popular CSR models like the Carroll's pyramid (Carroll, 1991) show that it is important to tackle the issue of modern slavery for a company like Nestle. The Universal Model of CSR (2014) proposed by Nalband and Al Kelabi explains how and why CSR will become part of the business and sustainability; and its applicability universally ***(See TN Exhibit II)***. Tackling modern slavery can be seen as an ethical responsibility wherein a company has a duty to protect the human rights of its workers. However, there are potent limitations of CSR on modern slavery. According to New (2015), the standard initiatives of anti-modern slavery CSR are themselves, in some sense, part of the enabling mechanisms for modern slavery to persist:

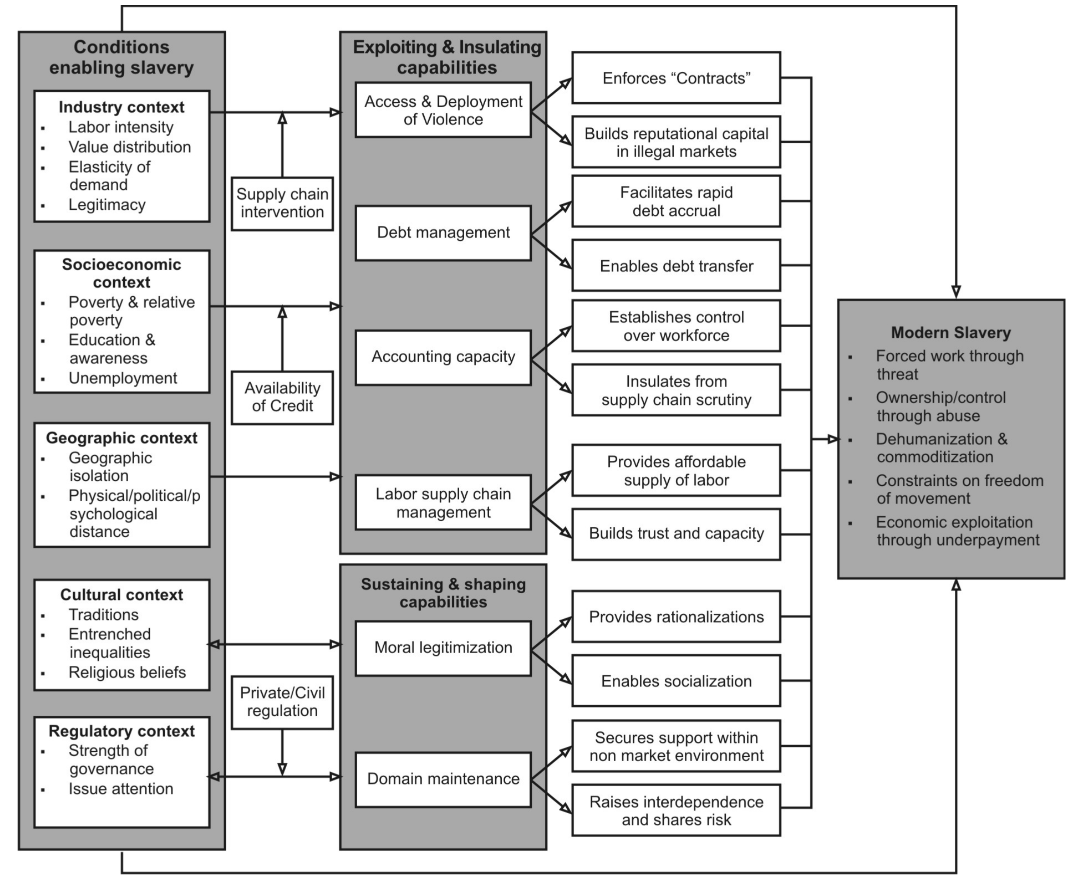
- the right hand (the CSR activity, the policy statements) gives the appearance of working to reduce the problem; and
- the left hand (the brutal exercise of commercial power, hard negotiation on prices and trading terms) generates the conditions in which forced labour emerges.

The corporate sustainability (CS) approach that aims for the transformation of markets, consumer patterns, life styles, etc. can prove to be a better alternative to tackle the issue of modern slavery. CS is about "...meeting the needs of a firm's direct and indirect stakeholders (such as shareholders, employees, clients, pressure groups, communities, etc.), without compromising its ability to meet the needs of future stakeholders as well" (Dyllick & Hockerts, 2002). Lozano (2015) has identified various CS drivers ***(See TN Exhibit III)***:

- Internal: Shared values, resources and cost saving, company culture; sustainability reports; customer demands and expectations; moral and ethical obligations to contribute to CS; and champions.
- External: National government; raising student awareness; access to resources; environmental crises; regulations and legislation; raising society awareness; and collaboration with external organisations.

TN Exhibit I:

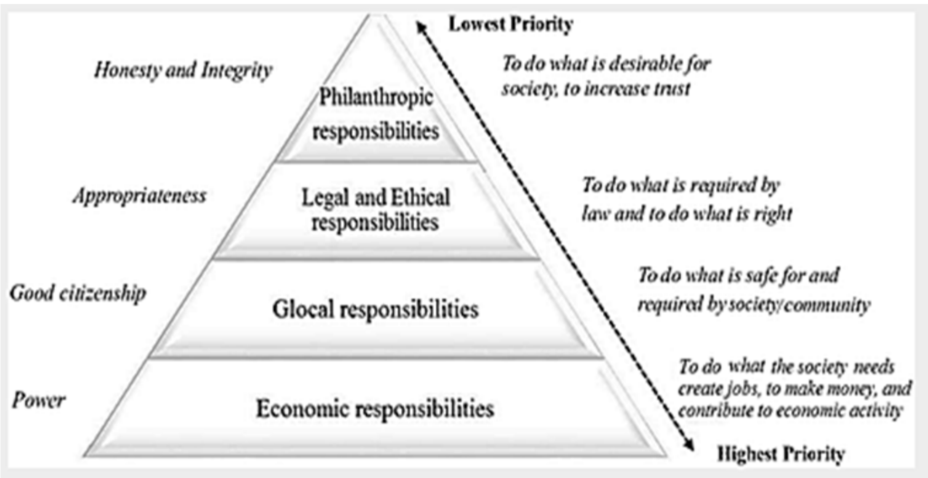
A Theoretical Framework of Modern Slavery



Source: Crane, A. (2013). Modern slavery as a management practice: Exploring the conditions and capabilities for human exploitation. Academy of Management Review, 38(1), 49-69.

TN Exhibit II:

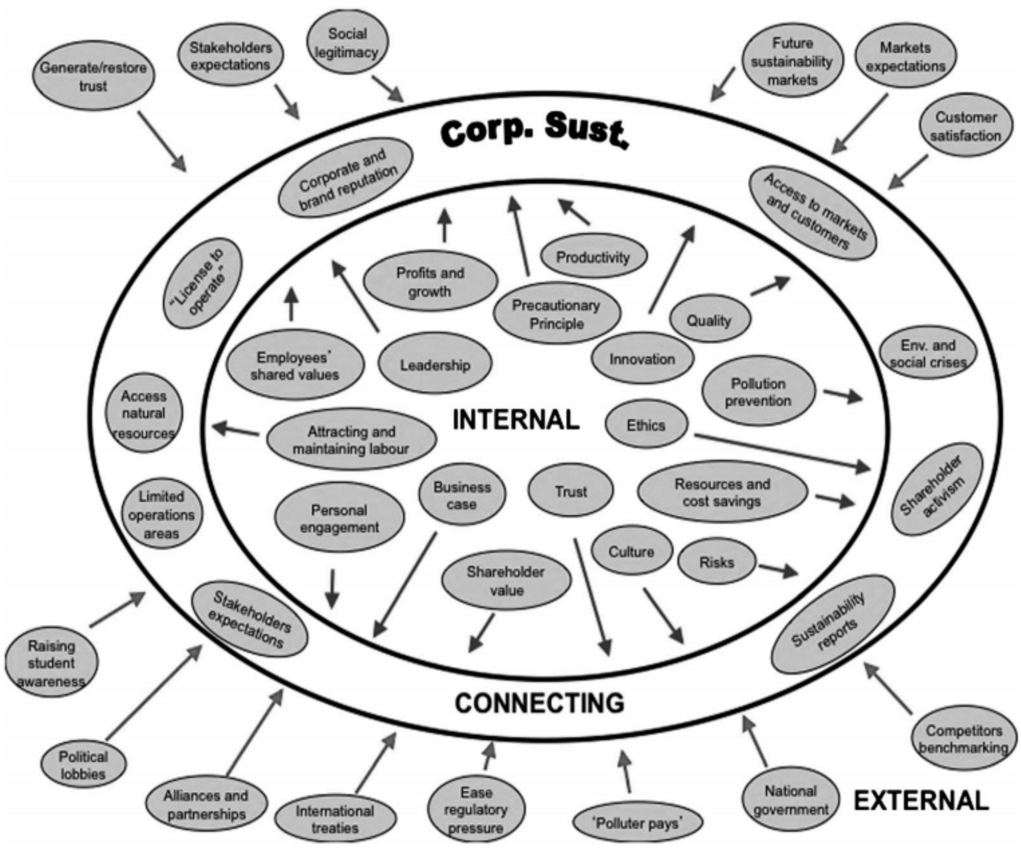
The Universal Model of CSR



Source: Nalband, N. A., & Kelabi, S. A. (2014). Redesigning Carroll's CSR pyramid model. Journal of Advanced Management Science, 2(3).

TN Exhibit III:

Corporate Sustainability Driver Model



Source: Lozano, R. (2015). A holistic perspective on corporate sustainability drivers. Corporate Social Responsibility and Environmental Management, 22(1), 32-44.

Global companies have a moral and ethical obligation to combat slavery in their supply chains. Modern slavery is inconsistent with company values and a big threat to their reputation. If they fail to disclose to consumers the use of slavery in their supply chains, they are deceiving them into buying products they would not have otherwise purchased. For tackling the challenges posed by modern slavery, CS offer the potential to be more encompassing, both in terms of the company system (including operations, strategy, organisational systems, etc.), and in terms of stakeholders (internal and external, as well as social and environmental).

2. *What are the conditions enabling slavery in cocoa supply chains in Ivory Coast?*

The condition can be analyzed using the theoritical framework of modern slavery ***(TN Exhibit I)***.

Industry context:

- Labor intensity: Cocoa production is labor intensive and requires mostly unskilled labor. This contributes to the widespread use of child labor.
- Value distribution: In the cocoa supply chain, margins are narrow and value is captured further downstream by larger and more powerful tier I suppliers. Tier II suppliers might then perceive the necessity for coerced labor to accrue lower costs and drive profitability.
- Elasticity of demand: The global cocoa suppliers face high elasticity of demand coupled with low elasticity of supply.

- Legitimacy: Slavery is more likely to persist in cocoa supply chains because suppliers seek to operate beyond the oversight of regulators and other formal institutional forces.
- Regional clustering: Slavery practices are more diffused in the cocoa supply chains as slave operators are part of strong geographic social networks that collectively divert institutional pressures.
- Supply chain interventions can also raise the effect of industry context on slavery by introducing new tiers of suppliers and putting pressure on prices.

Socio-economic context:

- Poverty and relative poverty: Extreme poverty is the norm for cocoa farmers wherein the lack of a decent livelihood for them leads to human rights violations; family members or others are forced to work the field.
- Education and awareness: Many children in Ivory Coast are forced into labor due to poverty and the absence of educational opportunities in the region. Lack of awareness regarding anti-slavery regulations also inhibits the reporting of potential slavery incidents.
- Unemployment: Lack of appropriate skills among workers and limited job opportunities in the region may force some people to work on cocoa farms.

Geographic context:

- Geographical isolation: Some cocoa growing regions have little or no contact with law enforcement, support groups, or trade unions that might otherwise help protect individuals' interests.
- The locations are isolated from the main sources of labor (cities, towns). As a result, a high demand/ low-supply market for labor is created. This imbalance leads to higher labor prices and small-scale operations could only become economically viable by employing slave labor.
- Physical/political/psychological distance: Physical, political, or psychological distance from the usual home place of slave workers can prevent escape. People enjoying the end products are often not aware of the sufferings of the people in cacao plantations in places like Ivory Coast.

Cultural context:

- Traditions: Bonded labor is a longstanding issue, rooted in custom and tradition in West Africa.
- Entrenched inequalities: This includes exploitation or discrimination, notably against women, racial minorities, or children.

Regulatory context:

- Strength of governance: One of the key regulatory factors is the strength of governance in the region which includes government effectiveness, regulatory quality, political stability, control of corruption, and voice to citizens. Though Ivory Coast is contributing significantly to the economic development of the West African region, the region has endured political unrest over the years.

3. *Why is tackling the issue of modern slavery so important for a company like Nestlé?*

Modern slavery is at odds with increased emphasis on CSR which entails taking responsibility for a company's effects on economic and social well-being. Customer facing businesses, particularly those that have significant brand value like Nestlé, face growing expectations from customers that their products comply with social and human rights criteria. There are moral and human rights imperatives for Nestlé to take action on modern slavery.

Responsible businesses must tackle slavery. The literature identifies a number of factors forcing as well as incentivizing companies to take action on slavery in their supply chains (Quarshie & Salmi, 2014; Schroders, 2016; Lake *et al.*, 2016). These include:

- Fears of reputational damage (e.g. Nestlé suffered from bad press, etc.)
- Loss of consumer trust (e.g. negative sentiment, Case Exhibit X)
- Loss of trust in the brand leading to loss in revenues (e.g. most boycotted)
- Investor interest. Company's reputation and the value of its shares are at risk, particularly if it operates in a consumer-facing sector
- Management of trade and investment risk. Allegations of modern slavery can threaten investor relations and risk access to public funds such as export credits.
- Loss of market share
- Rise in ethical consumerism
- Increasing government regulations
- Legal and compliance issues
- Legal risk due to lawsuits raised by employees and other stakeholders (e.g. Nestlé has been a subject of class action lawsuits, etc.)
- Financial penalties
- Risk to workers
- Risk of supply chain disruption (e.g. finding cocoa may become difficult in future)
- Doing the right thing
- Corporate mission and values
- Senior leadership values
- Lack of employee engagement

There can also be positive incentives for companies to tackle modern slavery in their supply chains (Gold *et al.*, 2015). These include:

- Credibility with customers, investors, NGOs (e.g. Nestlé received some positive coverage with respect to its disclosures in its Thai seafood supply chain)
- Improved employee morale
- Higher investment prospects
- The company being able to market 'slave-free', ethical products at a higher price as customers are often willing to pay slightly higher prices for ethical products (e.g. Kitkat)
- The company receiving certification standards from organizations such as Fairtrade which may boost its image.

Hence, companies like Nestlé that have significant brand value are expected to comply with social and human rights criteria in their supply chains. Powerful companies like it should be ethically and socially aligned and should not shy away from investigating and preventing potential human rights abuses by their suppliers. Nestlé is aware of the human rights abuses against children in Ivory Coast and it is obliged ethically to take action.

Moreover, Nestlé has the financial stability to bring about positive changes in its supply chains. If it is to be a long-term sustainable corporation, it must live up to the ethical promises that it makes and implement real change at the level of the cocoa farms. Nestlé must actively make its supply chains more transparent so that customers can see the efforts it is making to combat slavery in Ivory Coast.

4. *Investigate the existence of modern slavery in Nestlé's supply chains and its efforts in tackling it.*

In its guidance, "Indicators of Forced Labor", the International Labor Organization (ILO) identifies 11 indicators of forced labor:

1. ***Abuse of vulnerability***: The employer takes advantage of a worker's vulnerable position, for instance, to impose excessive working hours or to withhold wages.
2. ***Deception***: Deception relates to the failure to deliver what has been promised to the worker, either verbally or in writing
3. ***Restriction of movement***: Forced laborers may be locked up and guarded to prevent them from escaping, at work or while being transported.
4. ***Isolation***: Victims of forced labor are often isolated in remote locations, denied contact with the outside world.
5. ***Physical and sexual violence***
6. ***Intimidation and threats:*** This include loss of wages or access to land, sacking of family members, further worsening of working conditions, or withdrawal of privileges.
7. ***Retention of identity documents***: Retention by the employer of identity documents or other valuable personal possessions.
8. ***Withholding of wages***
9. ***Debt bondage:*** Forced laborers work in an attempt to pay off an incurred or sometimes even inherited debt.
10. ***Abusive working and living conditions***
11. ***Excessive overtime***

TN Exhibit IV

Observations from Nestlé's Seafood and Cocoa Supply Chain	**Applicable ILO Indicators**	**Based on Theory of Modern Slavery (See TN Exhibit I)**
• Children were forced to work long hours, including overtime, and even when they were sick. They were denied sufficient food by their traffickers and employers.	Abuse of vulnerability	Ownership/control through abuse
• Workers were enticed by traffickers with promises of good wages and easy work.	Deception	Economic exploitation
• Children were imprisoned in dark rooms, forced to urinate in a cup.	Restriction of movement Isolation	Constraints on freedom of movement; Dehumanization and Commoditization
• Many of these workers were trafficked into labor, put to work on plantations in Ivory Coast. They endured verbal and physical abuse, and lived under abysmal conditions. • Children were whipped and forced to work for 14 hours a day. Guards would slice open the feet of any child worker who tried to escape.	Physical and sexual violence	Ownership/control through abuse

Observations from Nestlé's Seafood and Cocoa Supply Chain	Applicable ILO Indicators	Based on Theory of Modern Slavery (See TN Exhibit I)
• Workers were led to believe that if they did not comply with what was being asked of them, their families would be subject to physical, social, or financial retribution in their home country.	Intimidation and threats	Forced work through threat
• Workers did not receive any salary for a year's work at a farm.	Withholding of wages	Economic exploitation through underpayment
• Some children were sold by their parents to traffickers while some were kidnapped. The traffickers sold them to farmers, where they ended up in conditions of bonded labor. Some farmers refused to let them leave the farm until the debt of their purchase had been paid off.	Debt bondage	Constraints on freedom of movement
• Some children were involved in hazardous farming tasks or work on farms including carrying heavy loads, using machetes and sharp tools, and applying pesticides and fertilizers.	Abusive working and living conditions	Dehumanization and Commoditization
• At the seafood supply chain in Thailand, migrant workers had their passports confiscated and were forced into debt bondage after being recruited.	Retention of identity documents Debt bondage	Forced to work through threat

For this, Nestlé can be rightly accused of deceiving its customers into buying unethical products. As a consequence of its failures to address slave labor within its supply chain, Nestlé's customers are also indirectly supporting slavery. Nestlé unethically continues to thrive and profit from the exploitation of unfair and unethical child labor.

Nestlé's Actions:

In 2015, Nestlé voluntarily admitted to forced labor in its Thai sea food supply chain when it released the results of an internal investigation into practices on prawn farms and fishing boats in Thailand. In a move toward transparency, the company's investigation found that the Thai seafood industry, suffered from widespread human rights abuses, including the use of child labor. Nestlé's disclosure is rare because companies with allegations of abuse in their supply chains rarely share negative findings. With this, Nestlé has committed itself to self-policing its supply chains. The company has identified the protection of human rights, including the abolition of child labor and the elimination of all forms of forced or compulsory labor as one of its Corporate Business Principles. It

- Launched TNCP to ensure a sustainable future for the cocoa industry worldwide and the communities depending on it. For instance, KitKat became the first global confectionery brand sourced from 100% certified sustainable cocoa, supplied through TNCP that aimed to improve lives in farming communities and the quality of beans
- Set up a Child Labor Monitoring and Remediation System (CLMRS) to improve workers' livelihoods and protect children in its cocoa supply chain ***(See case Exhibit VII).***
- Rolled out the Nestlé Commitment on Labor Rights in cocoa Supply Chains

- Engaged with stakeholders. Collaborated with different stakeholders (NGOs, governments, trade unions) to set up mechanisms to provide comprehensive monitoring, implement effective remediation activities, and offer support to local communities.
- Evaluated the risks. Having identified 11 key human rights risks in its business, Nestlé developed detailed action plans for seven of them including child labor, labor rights in its operations, and forced labor in the upstream supply chain.
- Formed partnerships with key external organizations. It worked closely with the Danish Institute for Human Rights (DIHR) to roll out its Human Rights Due Diligence Program (HRDDP) throughout its operations globally and with the Fair Labor Association (FLA) to address labor-related issues.
- Continued to make its approach to human rights planned, comprehensive, and unified across all its business activities through HRDDP.
- Delivered transparency by communicating its commitment to suppliers and stakeholders, operating a complaints mechanism, monitoring progress, and reporting on actions and progress.
- Provided training and awareness. Engaged specialist partners, provided staff training and guidelines to tackle slavery in its cocoa supply chain.
- Enforced traceable supply chains identifying all potential sources of origin as part of a comprehensive supply chain risk assessment. Carried out assessments in its Thai seafood supply chain by undertaking a mapping exercise of its supply chain and followed this up with an NGO providing a detailed supply chain risk assessment ***(See Case Exhibit IX).***
- Established a grievance mechanism that allowed for anonymous reporting and installed a fishing vessel verification program to assess working conditions on randomly selected boats
- Implemented a training program for boat owners and/or captains.

Tackling modern slavery is by no means an easy task. Nestlé has undertaken some sound actions to tackle this issue, particularly in its Thai seafood supply chain. But a lot needs to be done in the cocoa supply chain. As per its own admission, child labor still exists in its cocoa supply chain. Till the last child is rescued from slavery in its supply chain, a well-resourced company like Nestlé cannot afford to rest.

5. *Discuss the key barriers Nestlé could face while addressing modern slavery in its supply chains.*

Modern slavery is a complex supply chain issue. For Nestlé, identifying modern slavery within its supply chains would be challenging due to the following reasons:

Industry Context:

- Cocoa farming is highly labor intensive
- High elasticity of demand and low elasticity of supply may lead to a high demand for cheap labor.

Socio-economic context:

- Extreme poverty, social exclusion, discrimination, and lack of adequate social protection and educational and employment opportunities come into play while eliminating child labor.

Geographic context:

- Suppliers in cocoa farms in Ivory Coast are geographically isolated and have little contact with their procurers (big chocolate manufacturing companies).

- Nestlé may have limited visibility over what is occurring in its complex multi-tier supply chains, particularly where there is outsourcing or sub-contracting. Suppliers may actively deceive it about working conditions.
- Nestlé's monitoring systems allegedly cover only tier one suppliers at the top of the value chain. As noted, forced labor is more likely to be found in the bottom tiers.

Cultural context:

- Slave labor is a longstanding issue, rooted in custom and tradition in Ivory Coast

Regulatory context:

- Government effectiveness, regulatory quality, control of corruption, and voice and accountability to citizens is reportedly not very effective in Ivory Coast
- The limited presence of law enforcement agencies in the region may hamper anti-slavery efforts.

Other barriers:

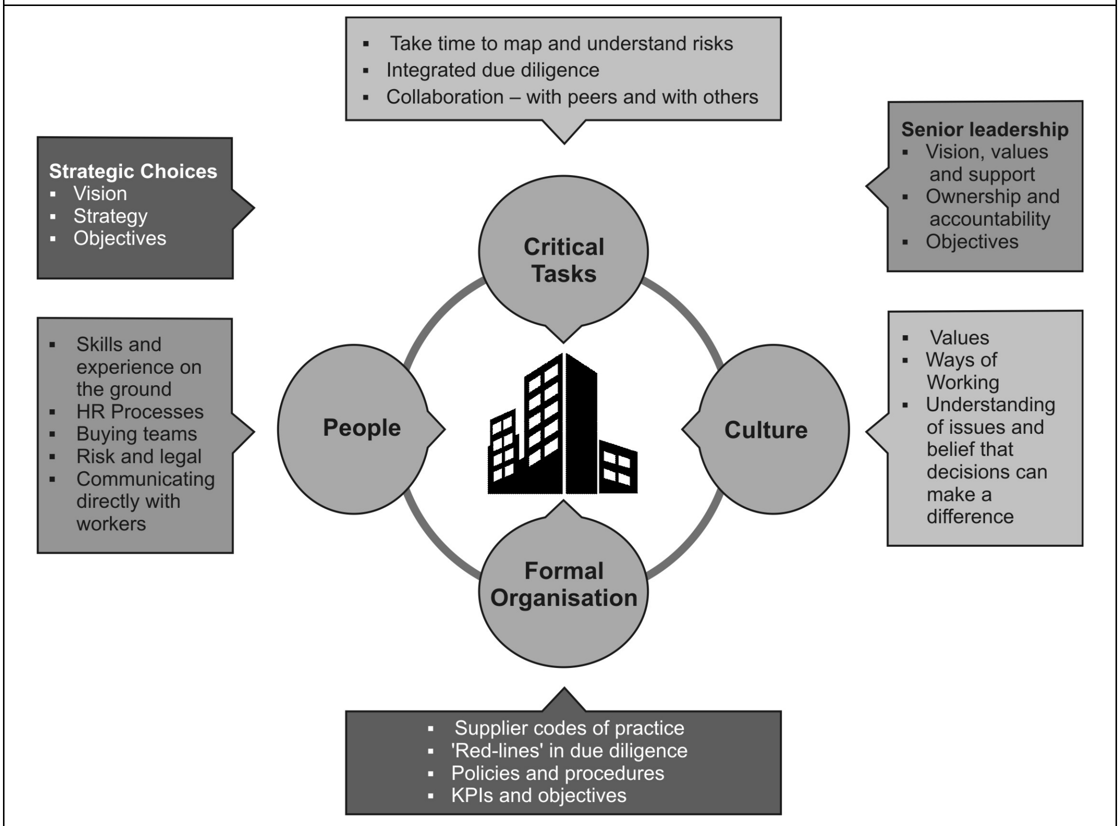
- The length and complexity of its supply chain.
- Nestlé can adopt a multi-stakeholder approach to address modern slavery, but working with a diverse range of stakeholders each with their own priorities and perspectives, could be difficult.
- Lower tier suppliers benefit hugely from cost savings through use of modern slavery and so could be unwilling to tackle it.
- Forced labor is a criminal activity; it is often actively hidden by the perpetrators, making it difficult to detect. Third party auditors may struggle to get full access to facilities and victims may be unwilling to speak up fearing retaliation.
- Cost and pricing pressures. The elimination of forced labor may conflict with the goal of profit maximization for suppliers.
- Modern slavery can feature in the supply chain in an episodic manner and can take many different forms. This can make it difficult to identify.
- Competitive tensions can be a barrier. Collaborating with competitors and competition law can be a challenge.
- CLMRS has cost implications. Working to make it as effective as possible is essential if the system is to be sustainable in the long term.
- Nestlé can face challenges of time, resources, and expertise, and lack commitment at the Board level.
- Issues relating to human trafficking in supply chains will garner a negative response. Failing to take action will damage its corporate reputation. An analysis of Nestlé's adverse media coverage related to slavery with LexisNexis Newsdesk demonstrates that more than a third of the coverage was entirely negative, while only 2.5% was positive ***(See case Exhibit ix).***
- Constant scrutiny. The requirement to produce a public statement on modern slavery results in consumers and investors dissecting the practices of the company. The desire for greater transparency will put pressure on Nestlé (as has been seen from the response to Nestlé's disclosure about the Thai seafood supply chain, where it was accused of greenwashing).

6. *What should Nestlé do to mitigate the risk of modern slavery in its cocoa supply chain?*

From TN Exhibit I we can see that broadly major interventions are required on the supply chain, availability of credit, and private/ civil regulations in order to tackle the issue of modern slavery. In order to mitigate the risks of modern slavery in its cocoa supply chain, Nestlé's business should be aligned in terms of strategy, policies, systems, key performance indicators (KPIs), and training ***(See TN Exhibit V)***. The more aligned a company's response, the lower the likelihood of modern slavery being found in its supply chains. Transparency is also an important tool in eradicating modern slavery and human rights abuses in the supply chain.

TN Exhibit V:

Aligning Nestlé Response to Modern Slavery



Adapted from Tushman, Michael L. and O'Reilly, Charles A. (1996). The ambidextrous organisation: managing evolutionary and revolutionary change. California Management Review, 38: 1-23.

Senior Leadership

- The senior leadership team at Nestlé has to have zero tolerance for slavery and be accountable to the actions of the company
- The company should ensure senior management buy-in. They should realize that social responsibility is crucial to the farming communities in Ivory Coast, and also to the quality of Nestlé's products.
- Boards and senior leaders need to understand how modern slavery could be a risk for their company as well as the complexity of the issues and their role in driving a strategic response.
- Senior leadership must be engaged early on to understand and appreciate the risks, to ensure appropriate resourcing and staffing and corporate culture transformation

- A person holding sufficient authority, resources and knowledge of the business has to be appointed to take responsibility for assessing and managing the company's anti-slavery initiatives.

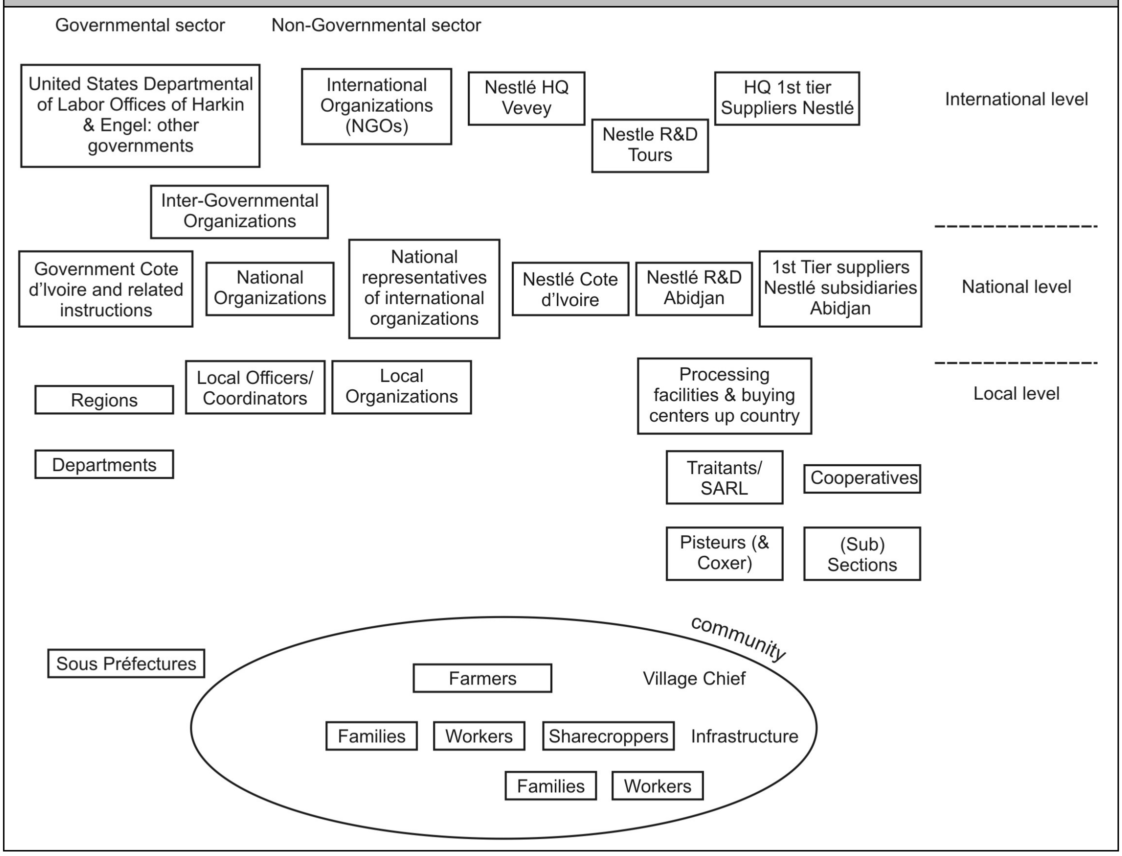
Take time to map supply chain and understand risks:

The company should

- Understand its supply chain – the tiers and factories involved
- Traceability is key and visibility over the supply chain is vital to identify risks and be able to act upon them.
- Go and see what is happening on the ground
- Focus on first tier, high risk sectors
- Assess risks: Internal - what areas of its business are vulnerable – focusing on high risk regions; External - what areas of its supply chain are vulnerable? *(Students can be encouraged to map Nestlé's Cocoa Supply Chain in the Ivory Coast involving various stakeholders in order to understand what areas of the supply chain are vulnerable to slavery)*. ***(See TN Exhibit VI)***

TN Exhibit VI

Stakeholder Map of Nestlé's Cocoa Supply Chain in the Ivory Coast



Source: www.fairlabor.org/sites/default/files/documents/reports/cocoa-report-final_0.pdf

People:

- Nestlé should have a company policy and a commitment to tackling modern slavery

- Bring together representatives from human resources, public relations, procurement and compliance to identify areas of weakness within the supply chain
- Promote workers' voice in supply chains
- Focus more on due diligence
- Offer internal training on company policy
- Build a team of leaders across procurement, HR, legal, risk, and commercial to ensure that priorities and KPIs are not conflicting
- Ensure individuals whose roles directly relate to Nestlé's modern slavery response (CSR, procurement, HR, legal, risk) develop their soft skills to build relationships of trust and transparency with suppliers
- Ensure company has a whistleblowing policy and that employees and suppliers know how to use it.

Supplier Codes of Practice:

- Consolidate and build relationships of transparency and trust with suppliers and seek long-term strategic partnerships – Transparency and communication with suppliers is key when it comes to identifying issues of modern slavery.
- Undertake responsible sourcing. Build better relationships with suppliers to ensure supply chains are resilient and efficient.
- Ensure company's systems and processes are aligned with buying processes
- Review HR and procurement systems and ensure they are aligned with human rights standards
- Work with our suppliers, making them change, and if they fail to comply repeatedly, then delist them.

KPI's and Objectives:

- Build on existing practices. For instance, Nestlé has a well-developed TNCP. The company can further expand it to address slavery
- Ensure KPIs are focused on impact rather than action
- Incorporate human rights performance criteria (KPIs) into screening and due-diligence processes for suppliers
- Integrate and embed human rights policies throughout its operations

Collaboration with peers and with others:

- Collaborate with the media and NGOs, which can play a role in enhancing governance and attention by investigating and publicizing instances of slavery. For instance, media and NGO pressure led Nestlé and some others to sign the Harkin/Engel Protocol in 2001 as a step toward eliminating child and forced labor in cocoa growing and processing
- Engage with external stakeholders who can assist with supply chain risk assessments
- Collaborate with peers
- Involve multiple stakeholders including buyers and suppliers of the product, government, and local enforcement authorities and labor unions to gain legitimacy and effectiveness
- Collaborate with governments to frame and strengthen modern slavery regulations
- Ensure these partnerships legitimize them as an ethical entity and drive consumers into believing that they are actively combatting child slave labor in their supply chain

Other Practices:

- Generate new business opportunities among the poor
- Provide assistance to cocoa farmers in the form of new technologies, crop yield techniques, and fairer trading arrangements
- Encourage microcredit schemes in regions with persistent debt bondage problems
- Reduce the effect of high labor intensity and low value distribution by instituting new trading relationships and better technology.
- Provide funding for local policing and train people on human rights issues

Nestlé is capable of making significant changes to the issue of modern slavery due to its financial prowess and global presence and influence. It has the financial resources and huge bargaining power to make this issue disappear at least from its own supply chain. For instance, its sales were CHF 89.5 billion in 2016. If Nestlé were to provide higher wages for the farmers and ensure better livelihoods, slavery would undoubtedly decrease. It can also publicize at the point of sale the initiatives it has taken to ensure that its products are free from modern slavery and also what percentage of its supply chain is free from it. Not only will this incentivize the company to work toward eliminating this problem, but it will also help mitigate potential lawsuits (of deceptive marketing) and the resultant bad press associated with it.

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