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# 2

## BUSINESS WITHOUT BORDERS

## LEARNING OBJECTIVES

- 2.1 Explain why all business today is global.
- 2.2 Describe the various types of trade restrictions and implications for business advantage.
- 2.3 Explore how startups to multinational corporations compete globally.
- 2.4 Appreciate the challenges of working across cultures.
- 2.5 Compare different models to help build cultural awareness.

## BUSINESS IMPACT CASE 2.1: AMAZON—SEATTLE, WASHINGTON

## SDG 8: Decent Work and Economic Growth

Everyone has heard of Amazon, but have you heard of Amazon Accelerate and how it helps launch global e-commerce entrepreneurs? Amazon Accelerate is an annual conference for vendors currently selling their products on Amazon as well as for those wanting to.<sup>1</sup> Today, sales on Amazon from third-party providers accounts for up to 50% of sales. Amazon provides the tools to help aspiring entrepreneurs build an e-commerce business, professionally brand the products, facilitate customer service, and build robust domestic and international sales and distribution channels. Amazon helped launch 200,000 new U.S. businesses on its platform in 2020 alone.<sup>2</sup> The company reports that close to 30,000 small and medium-sized businesses surpassed \$1 million in sales in 2021 and created over 1.8 million jobs in the United States.<sup>3</sup>

In late 2021, Amazon Accelerate announced new tools to help U.S.-based businesses to grow their export sales internationally through Amazon global stores. An Amazon “store” may not be what you think it is. Yes, Amazon is starting to enter the world of physical Amazon stores, such as its new store concept called Amazon 4-Star that curates some of the highest-reviewed nonfood, nonperishable products on Amazon in particular locations such as London and New York.<sup>4</sup> A global Amazon store, however, is simply the Amazon.com platform that you would type into your browser from the U.S., but in another region of the world. For example, if you are living in the UK you would reach Amazon by typing in Amazon.co.uk, or in Japan you would go to Amazon.co.jp.

Now, a small business selling on Amazon in the United States can expand its business globally by reaching customers in Europe, Asia-Pacific, Middle East, and other parts of the Americas including Canada, Mexico, and Brazil. Amazon projects that over 6 million products from U.S. sellers have potential for growth in the international stores.<sup>5</sup> According to Eric Broussard, vice president of International Selling Partner Services, “Global Selling helps small businesses leverage Amazon’s scale and reach to easily expand into countries around the world, while maintaining control of their brand and not having to worry about global logistics.”<sup>6</sup> The new Amazon tools to help entrepreneurs go global include customer service handled by Amazon in foreign markets, assistance in what types of products should be sold internationally, a global inventory viewer so sellers can easily manage their supply and meet demand, and a global listing that allows sellers to list their product once and reach all international stores seamlessly and with just a few clicks.

Vermont-based family business Ann Clark Cookie Cutters is a manufacturer of cookie cutters in the United States.<sup>7</sup> Using Amazon’s global selling services, its international revenue has grown to 20–30% of total sales, depending on time of year. Ben Clark, Ann Clark Cookie Cutters CEO, said, “Expanding to international locations without Amazon would have been more difficult because we’d have had to get a distributor in every country to manage our products. Amazon has made this process much easier and taken a lot of the guesswork out of which products will be successful.”<sup>8</sup>

Amazon’s size is helping the smaller entrepreneurs grow in ways that may not have been possible. The global market is much easier to reach than ever before.

### Critical Thinking Questions

1. Research how to start selling on Amazon. Does this seem easier than you expected, or far more complicated?
2. If you buy on Amazon, review your order history and see how many of your orders are from third-party sellers. Any insights?
3. While Amazon has enjoyed much praise for its growth and innovation, it has also experienced criticism related to poor treatment of employees working in its warehouses. Would the treatment of Amazon warehouse employees limit your participation as a third-party seller on Amazon?

### GLOBAL BUSINESS TODAY

As the Amazon case demonstrates, the world is getting smaller. By providing access to global markets, small businesses can expand to international stores that would have been considered beyond their reach. Over the last couple of decades, the globalization of technology has led to a new “flattened” world where greater collaboration and competition can flourish without boundaries. In *The World Is Flat*, Pulitzer Prize–winning author and journalist Thomas L. Friedman described his flat world theory as a level playing field between industrial and emerging markets where entrepreneurs and big and small businesses have become part of a global supply chain that allows them to compete across entire continents.<sup>9</sup> As a result, in a flat world large corporations and small businesses compete side by side in global markets—markets previously only accessible to the largest multinationals.

This explosion of **global trade**, the exchange of goods and services between countries, has led to an exponential rise in the value of goods exported throughout the world. For instance, in 2000 the global trade value of goods amounted to just over \$6 trillion. In 2019, it rose to approximately \$19 trillion—a 217% increase. This substantial increase in the value of goods in just under two decades reflects the huge development in international trade, technological advances, entrepreneurship, and mass globalization.<sup>10</sup>

The fact is that no national economy can produce all the goods and services required by its people. The harsh weather conditions prevent bananas from growing in Alaska, for example. Climate change is even changing some of the world’s oldest and richest markets. Wines from grapes traditionally grown in France’s highest-producing areas—Champagne, for example—are not growing as they once were. Higher temperatures and changes in weather patterns have decimated crops. In 2021, France recorded the smallest grape harvest since 1957.<sup>11</sup> The new fine wine market is beginning to come out of England, where the temperatures have become just right for grape growing; England was once too cold. By 2030, experts predict that winemakers will be exporting 20 million bottles a year.



You may not think of England when you think of winemakers, but with warming temperatures, vineyards like this one in East Sussex are becoming more common.

GLYN KIRK/AFP/via Getty Images

Countries import and export goods to meet the needs of their people. **Importing** is the buying of products overseas and reselling them in one's own country; and **exporting** is the sale of domestic products to foreign customers. Importing and exporting are the oldest and most prevalent forms of international trade. In 2020, China, the United States, and Germany were the biggest merchandise exporters in the world. All businesses, big or small, must abide by trade restrictions when trading across borders.

### Common Challenges of Global Business

A big challenge of doing business globally is understanding different legal and regulatory environments in each country. Typically, every country has established laws and regulations that must be followed by businesses operating within its borders. Companies doing business internationally often face laws and regulations that are inconsistent among different countries, and some have fallen afoul of certain foreign laws. For example, in 2014, Airbnb was forced to pay a significant fine for failing to comply with housing rental laws in Barcelona, Spain, which requires rentals to be registered on the Catalonia tourism registry.<sup>12</sup> In 2021, Barcelona introduced a new law banning short-term private rentals, the first European country to do so.<sup>13</sup>

### Approaches to Managing Legal and Regulatory Obligations

Companies must prepare for expanding into new markets in different countries by assessing the legal and regulatory obligations and the overall risks involved in operating within a new jurisdiction. Seeking advice from local lawyers and liaising with local businesspeople who are familiar with the legal landscape can help companies comply with regulations and deal with bureaucratic obstacles. There are five main areas businesses need consider before expanding internationally.

#### Choose the Right Business Structure

One of the most important parts of expanding internationally is choosing the type of business structure and ensuring it is compliant with local laws. This involves assessing whether the business will be operated from one central location or if there will be branches set up abroad. If a business wants to set up an office in a different country, it must be registered as a legal entity by a local representative in that country. Businesses that set up branches in different foreign locations will need to consider how teams are managed and organized and how they can work efficiently across different time zones. Coca-Cola is controlled from central headquarters, but its business structure is divided into different subdivisions in each country, with each group overseen by a president.

#### Be Mindful of Local Employment Laws

When setting up a branch in a different country, businesses must decide whether they will staff their offices with local talent or expats. Both types of employees will require compliance with local employment laws. Most countries do not have the same labor laws as the U.S. For instance, many countries pay employees on a monthly basis rather than week or biweekly, which is often the case in the U.S., and most European countries offer a minimum of 14 weeks' paid maternity leave, unlike the United States, which is under no obligation to do the same. In addition, other countries, such as Belgium, France, and Saudi Arabia, require employment agreements to be translated into the local language before they are deemed valid.<sup>14</sup>

#### Understand the Impact of Tax Implications

Different tax systems in foreign countries can have serious implications for businesses expanding internationally. Breaking taxation laws can incur huge fines and penalties. In addition, setting up in a country with high corporate tax rates will have a big impact on the bottom line. Saudi Arabia, Brazil, and Germany are among the countries with the highest corporate taxes in the world. Some businesses deliberately choose countries with low tax rates for foreign expansion. MNCs such as Google, Facebook, and Intel have set up operational headquarters in the Republic of Ireland because of its low corporate taxes.

## Assess Pricing Challenges

Companies must assess the price of products and services when doing business overseas. The costs of production, shipping, marketing, and labor must be viable for the company to succeed. Swedish furniture manufacturer IKEA originally struggled entering the Chinese market because its prices, considered low in Europe, were regarded as high in China. Local competitors were able to offer lower prices than IKEA because the costs of labor and production were much cheaper. IKEA was able to successfully cut prices by setting up production in China and using locally sourced materials, which led to a significant boost in sales.<sup>15</sup>



The Swedish company IKEA originally found that its prices were higher than local competitors in China. However, it was able to lower its prices by producing and sourcing its products in China, enabling it to be competitive.

LIU JIN/AFP/via Getty Images

## Research Political and Cultural Considerations

It is essential for companies entering new markets to be mindful of a country's political and cultural environment and to carefully consider how a country's history, traditions, language, and political landscape impact the business. For instance, foreign governments have the power to make political decisions in relation to changes in tariffs, tax regulations, and foreign trade policies that can seriously impact how companies do business. Cultural differences can also impact the success of a business. For example, Starbucks did not succeed in Australia because the country already had a thriving café culture populated with local, independent coffee shops. The demand for a large café chain just wasn't there.

## ENTREPRENEURIAL MINDSET ACTIVITY

### It's a Small, Small World

Think of the products you use daily. Chances are good that many if not most of these products were manufactured in a country different from your country of origin.

Your mindset activity is to list all the products you use daily from the moment you wake up until the time you go to sleep. Do this every day for 3 days. Your daily list should include the clothes you wear, the items you use for personal hygiene, the food you consume, etc. After 3 days of logging products, look at all the items you noted in your list. What percentage of these items were manufactured in a country different from your country of origin? This will require you to do a bit of online research.

### Critical Thinking Questions

1. How many products that you used were created in countries different from your home country? Were you surprised by this? Why or why not?
2. What are the benefits of having such a global economy where products are manufactured all over the world? Is there a downside?
3. Does the country in which a product is manufactured impact your purchasing decision of this product? Why or why not?

## TRADING ACROSS BORDERS

When trading across borders, there are different types of trade restrictions that countries must abide by when importing and exporting goods. A **trade restriction** is a government policy that limits the flow of goods and services between countries. For example, trade restrictions created by the United States are used to protect the U.S. economy from competition created by companies from other countries. Think of a trade restriction as a barrier to entry and often seen as a way to protect domestic jobs and industries. The more formal term is *protectionism*.

**Protectionism** is a set of government policies designed to defend domestic industries against foreign competition. For example, sports footwear company New Balance, which produces sneakers in the U.S., is protected by a 20% tariff or tax on foreign shoe imports. This means that major competitors, such as Nike and Adidas, that tend to create their products outside the U.S. need to pay that tariff before selling their shoes to U.S. consumers. Typically, the cost of the duty is passed on to the customer by pricing the footwear higher than domestic footwear brands.<sup>16</sup>

### Types of Trade Restrictions

There are five main types of trade restrictions: trade surplus, balance of payments, tariffs, embargoes, and quotas.

A **trade surplus** occurs when a nation imports more than it exports. This means that more money is flowing into the country than out and shows that it can afford to pay domestic wages and support business expansion. Most countries strive to maintain a trade surplus and a positive **balance of payments**, a record of international trade and the flow of financial transactions made between a country's residents and the rest of the world. For instance, while American dollars may flow to Japan when purchasing video game console Nintendo, Japanese investors may return the investment when purchasing American golf courses.<sup>17</sup>

A **tariff** is a tax or duty paid on imported goods. There are two types of tariffs. A “unit” or specific tariff is a tax paid as a fixed charge for each unit of imported goods—for instance, \$300 per ton of imported steel. Tariffs are typically paid to the government of the country that is receiving the good, but the added cost is often passed on to consumers. An “**ad valorem**” tariff is a tax paid based on a proportion of the value of imported goods. For example, there might be a 20% tariff on the value of cars that are being imported into the country.

The use of tariffs dates back to the 18th century, when the purpose was to raise revenue. Today, tariffs are used not only for raising revenue but to protect certain domestic industries from foreign competition.

The impact of tariffs depends on the resources of a country and the power it has to influence world prices. For example, Ghana, a small country in West Africa, is the world's leading exporter of cocoa beans. The Netherlands, a small country in Europe, is the biggest importer of cocoa in the world.<sup>18</sup> If, hypothetically, the Netherlands' government decided to start a homegrown cocoa bean industry, it might impose a tariff on imports of Ghanaian cocoa to protect the Dutch cocoa bean growers against foreign competition. The consequences of imposing this tariff are mixed. On the one hand, the price of the imported cocoa would rise due to tariff, leading to higher costs for cocoa butter makers and Dutch chocolatiers making chocolate from the cocoa, not to mention consumers buying the chocolate.

On the other hand, buying from Dutch farmers growing their own produce is cheaper than the cost of importing the cocoa, which would encourage more chocolatiers to buy local rather than investing in the more expensive, imported variety. Although this is good news for the Netherlands in terms of gaining a new source of revenue, the Ghanaian economy would suffer as there would be less volume of trade between the two countries, leading to less income for the Ghanaian growers and producers.

Although it has been suggested that some countries are better off imposing tariffs, there is always a danger that the trade partners will retaliate by responding with tariffs of their own. This sort of “tit-for-tat” approach can lead to political conflict and trade wars between countries. For example, the trade war between the United States and China that began in 2018 under former U.S. president Donald Trump has caused tension between the world’s biggest superpowers. Trump imposed a series of tariffs on a range of Chinese goods, including meat and musical instruments, to encourage consumers to buy American products by making these goods more expensive. China retaliated with tariffs on U.S. products.<sup>19</sup> As of 2022, the trade war is still ongoing, with neither side taking steps to remove the tariffs.



Tariffs on items such as steel can sometimes lead to trade wars between two countries.

AFP/via Getty Images

An **embargo** is a trade restriction imposed by the government of the exchange of goods or services with a particular country or countries. Embargoes tend to be created as a result of strained economic, diplomatic, or political relationships between the countries involved.

There are several different types of embargoes:

- A **trade embargo** is a trade restriction that bans the exports or imports of certain goods and services to or from one or more countries. The United States has a trade embargo against Syria in response to its position as a sponsor of terrorism.<sup>20</sup>
- A **strategic embargo** is a trade restriction that forbids the exchange of military goods with a country. In 2020, Britain imposed an arms embargo on Hong Kong that prohibits potentially lethal weapons and crowd control equipment such as tear gas, which could be used for internal repression.<sup>21</sup>
- A **sanitary embargo** is a trade restriction enforced to protect people, animals, and plants. For example, the World Health Organization (WHO) places sanitary embargoes on certain countries to prevent them from importing and exporting endangered animals and plants.<sup>22</sup>

Historically, embargoes have not succeeded in bringing any major economic wins to the countries involved. For instance, the ongoing U.S. trade embargo against Cuba, in place for over six decades, has done very little to overturn the policies of Castro’s repressive regime and has not generated any real economic gains for either country.<sup>23</sup>

An **import quota** is a type of trade restriction that sets a limit on the quantity of particular goods being imported into a country during a given period of time.<sup>24</sup> The goal of import quotas is to protect domestic markets from being flooded by foreign goods, which tend to be cheaper than those produced by local businesses due to lower production costs or greater efficiency in the overseas market. For example, the United States may limit the quantity of Japanese cars to 3 million a year to protect the U.S. automotive manufacturers. Although import quotas may sound similar to tariffs, there is an important difference. A tariff is a tax on the imports of a particular commodity, while an import quota restricts the quantity of imported goods. There are two main types of import quotas: absolute quota and tariff rate quota.

An **absolute quota** is the maximum number of specific goods permitted to enter a country during a specific time period. Once the quota has been fulfilled, no additional goods are allowed to enter the country. Certain countries may be allowed to selectively set an absolute quota. For example, suppose the government sets an absolute quota of 50 million bottles of hand sanitizer. This would mean that no more than 50 million are allowed to be imported into the U.S. However, with a selective absolute quota, that figure could be divided among exporting countries, meaning that several different countries would be able to export different quantities of bottle sanitizer between them (i.e., Country A, 10 million; Country B, 15 million; Country C, 25 million) as long as the total amounted to 50 million.

A **tariff rate quota** is a two-tiered quota system that allows a specified quantity of product to be imported at a lower tariff rate. When the quota has been met, further goods may be imported, but at a higher tariff rate. For example, under a tariff-rate quota system, a country may allow 80 million bottles of hand sanitizer to be imported at the first-tier lower tariff rate of \$1 each. Any bottles of hand sanitizer imported after this quota has been reached would be charged a second-tier higher tariff rate, such as \$3 each.

Apart from giving local goods manufacturers a boost by protecting local business, import quotas provide stability in domestic markets because the volume of the imports entering the country is determined by the government rather than fluctuations in demand or changes in exchange rates.

However, import quotas also have negative effects. Large companies may bribe officials in an attempt to circumvent quotas, leading to widespread corruption in which bigger companies profit and small companies are unable to compete. In addition, quotas can create a black market when consumers use illegal means to acquire the goods they desire.

### Absolute and Comparative Advantage

As we have explored, international trade is essential for economic growth in the United States and around the world. To further understand the benefits of trade and why countries import some products and export others, it is important to learn the concepts of absolute and comparative advantage.

**Absolute advantage** is the ability of a country or business to produce certain products more efficiently than its competitors.<sup>25</sup> A nation has an absolute advantage if it's the only source of a particular product or it can make more of a product using the same amount of or fewer resources than other countries. An example of a nation with absolute advantage is Saudi Arabia because of its ability to produce oil more cheaply than any other nation.

**Comparative advantage** is the ability of a nation to produce a product at a lower opportunity cost compared to another nation.<sup>26</sup> China, for example, has a comparative advantage over the United States because of cheap labor. An American company may choose to produce its product in China because the lower costs of labor and production are so significant that choosing to produce the product in the U.S. would be less efficient and profitable. Opportunity costs, in this scenario, are the products that a country must decide not to make in order to produce other goods and services. In other words, when a country decides to specialize in a particular product, it must sacrifice the production of another product and the opportunity it could have created.

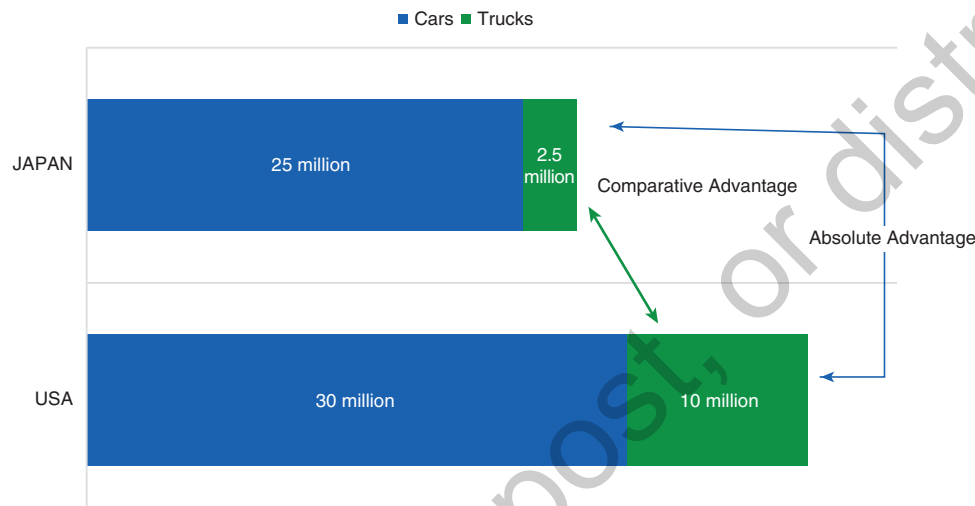
When a nation has absolute advantage, it is considered to be efficient at creating products at a lower cost; whereas countries with a comparative advantage can produce a particular product at a lower opportunity cost, meaning it needs to give up manufacturing less of one product to get more out of another product to compete with other nations. Table 2.1 outlines the differences between comparative advantage and absolute advantage.

The following example illustrates the concept of absolute advantage, comparative advantage, and opportunity cost. In Figure 2.1, the United States makes 30 million cars and 10 million trucks, while



**TABLE 2.1** ■ Absolute Advantage Versus Comparative Advantage

Absolute Advantage	Comparative Advantage
The ability of a country or business to produce certain products more efficiently than its competitors	The ability of a nation to produce a product at a lower opportunity cost compared to another nation
Trading is not mutual and only benefits one country	Trading is mutual and benefits both countries
Allows a country to produce higher quantities of goods by using the same amount or fewer resources than other countries	Allows a country to produce goods better than other countries by selecting one product over another
Creates products at a lower production cost	Creates products at a lower opportunity cost

**FIGURE 2.1** ■ Comparative and Absolute Advantage

Source: Adapted from Boyce, P. (2022, April 25). *Comparative advantage definition*. BoyceWire. <https://boycewire.com/comparative-advantage-definition/>

Japan makes 25 million cars and 2.5 million trucks.<sup>27</sup> As the U.S. produces more cars and trucks than Japan, it has an *absolute advantage*. It also has a *comparative advantage* in trucks because it is four times better than Japan in producing them. Although it might seem as though Japan should produce more cars than trucks because of the higher output, it has a *comparative advantage* in the production of cars. This is because it is less efficient at producing trucks and so the opportunity cost is much higher. Overall, Japan is more efficient at producing cars than trucks compared to the U.S.

Consider the concept of comparative advantage using a real-world perspective. Soccer star Cristiano Ronaldo is regarded as one of the best players in the world, so it's reasonable to say that he has greater ability on the soccer field than the average person. Let's say Ronaldo also has a wonderful musical ability, but he can't pay equal attention to both soccer and music without a drop in standards. Because of his world-renowned soccer skills, it wouldn't make sense for him to sacrifice soccer for music. This means he has a comparative advantage in soccer over music.<sup>28</sup>

## FROM MULTINATIONAL CORPORATIONS TO STARTUPS IN A FLAT WORLD

A company that operates in its own country as well as other, different countries around the world is known as a **multinational corporation (MNC)**. An MNC usually maintains a central office (also known as headquarters) in its home country, which coordinates the management of all its other operations in other countries such as suppliers, factories, other branches, etc. For example, American retail giant Walmart is one of the biggest multinational corporations in the world. It is headquartered in

Arkansas, but has operations in 24 different countries.<sup>29</sup> Table 2.2 lists the top five MNCs in the world. Each of these companies has connections to the UN Sustainable Development Goals. The last column in Table 2.3 identifies the primary goals each MNC is working on, yet most are working on even more goals than those identified in the table.

**TABLE 2.2 ■ Top Five Multinational Companies in the World, 2021 (based on market capitalization and revenue)**

Company	Industry	Revenue	Employees	Primary Connections to UNSDGs
Walmart	Retail	\$559 B	2.2 M	Focus on reducing hunger (goal 2), gender equality (goal 5), affordable and clean energy (goal 7), responsible consumption and production (goal 12), climate action (goal 13)
Amazon	Retail	\$386 B	1.3 M	Focus on clean energy (goal 7), sustainable cities and communities (goal 11), reduced inequalities (goal 10)
Royal Dutch Shell	Petroleum	\$334 B	86,000	Focus on affordable and clean energy (goal 7); industry, innovation, and infrastructure (goal 9); decent work and economic growth (goal 8); and climate action (goal 13)
Volkswagen	Automotive	\$282,760,000	304,174	Focus on affordable and clean energy (goal 7); industry, innovation, and infrastructure (goal 9); climate action (goal 13); responsible consumption and production (goal 12)
BP	Oil and gas	\$282,610,000	70,100	Focus on industry, innovation, and infrastructure (goal 9); responsible consumption and production (goal 12); climate action (goal 13); and reduced inequalities (goal 10)

Source: Data for columns 1–3 sourced from MNC definition with a list of multinational corporations—in detail. (2021, March 8). List Bay website: [https://listbay.org/multinational-corporation/#Top\\_Multinational\\_Companies\\_in\\_the\\_World](https://listbay.org/multinational-corporation/#Top_Multinational_Companies_in_the_World). Column 4 of table sourced from: United Nations Sustainable Development Goals. (2021). Retrieved January 16, 2022, from 2021 ESG website: <https://corporate.walmart.com/esgreport/reporting-data/unsdg;Governance>. (2020). Sustainability—US website: <https://sustainability.aboutamazon.com/governance>; Sustainable, U. (2020). UN Sustainable Development Goals. Retrieved January 16, 2022, from Shell.com website: [https://www.shell.com/sustainability/our-approach/un-sustainable-development-goals.html#iframe=L3dlYmFwcHMvc2hlcGwtc2RnLw](https://www.shell.com/sustainability/our-approach/un-sustainable-development-goals.html#iframe=L3dlYmFwcHMvc2hlcGwtc2RnLw;); Volkswagen Sustainability Report (2020). Volkswagen website: [https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2020/Nonfinancial\\_Report\\_2020\\_e.pdf](https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2020/Nonfinancial_Report_2020_e.pdf); bp global. (2021). UN Sustainable Development Goals | Sustainability | Home. Bp global website: <https://www.bp.com/en/global/corporate/sustainability/data-and-how-we-report/un-sustainable-development-goals.html>

Many MNCs strive to “think globally and act locally,” meaning that they incorporate environmentally conscious and community-minded initiatives into their operations to fit the location they occupy. The Coca-Cola brand is global, but it also supports each individual market it serves. For instance, during COVID-19, Coca-Cola sourced and distributed personal protective equipment (PPE) for front-line workers in Kenya, and when there was an urgent shortage of hand sanitizer in France, Coca-Cola used its French facilities to provide the gel to the French government.

### Benefits and Criticisms of MNCs

Multinational companies are growing every day as global brands enter emerging markets to seek revenue and profit from a wider customer base. The following sections outline some benefits and criticisms of MNCs.

#### Benefits of MNCs

- Provide better, cheaper products for customers: MNCs that expand into developing economies spend less on labor, land, premises, manufacturing, and production, which results

in lower-priced goods and services for customers. For example, Apple designs its products in the U.S. but manufactures them in China, where the cost of labor is cheaper.<sup>30</sup>

- **Create wealth and jobs:** MNCs create jobs in the countries in which they operate through direct employment of locals. Providing employment raises wages, which increases the standard of living for many, particularly for those in developing countries. German motor manufacturer Volkswagen manufactures cars in Kaluga, Russia, thereby creating 3,500 jobs for local workers.<sup>31</sup>
- **Provide skills and expertise:** MNCs improve the skills of the workforce in different countries through the introduction of new tools and technology. French personal care company L’Oreal runs a global youth program that provides young people all over the world with tools they need to enter the workforce.<sup>32</sup>
- **Increase cross-cultural understanding:** MNCs raise intercultural awareness by regularly engaging and collaborating with people across borders from different cultural backgrounds through an in-depth understanding of local business practices. For example, in Japan, junior employees rely on senior employees to approve decisions and delegate responsibilities, whereas in Western countries such as the U.S., employees are encouraged to make decisions independently.<sup>33</sup>
- **Help entrepreneurs to go global:** MNCs can enable entrepreneurs to go global by facilitating expansion into international locations. Tech MNC Amazon provides a range of tools and services to enable third-party sellers sell and promote their products in Amazon’s worldwide stores to millions of customers.



Some multinational corporations have been criticized for employing children in developing countries. Here, a young Ivory Coast boy carries cocoa melon seeds, which are used to create chocolate products.

Benjamin Lowy/Reportage Archive/Getty Images

### Criticisms of MNCs

- **Destroy livelihoods:** MNCs have been accused of destroying the livelihoods of workers in their home countries by sending their jobs overseas, where labor is cheaper. For example, in 2021, merchandise store Bed Bath and Beyond, which operates in the U.S., Canada, Mexico, and Puerto Rico, closed its call center in Utah and outsourced the jobs to the Philippines through a contractor, laying off more than 200 employees.<sup>34</sup>

- **Exploit the workforce:** In some developing countries, workers can work long hours, for below minimum wage, in unsafe working conditions. In the 1990s, Nike was exposed for using sweatshops and child labor and spent over a decade trying to repair its reputation by changing its company practices. In 2021, chocolate companies Hershey and Mars were among the companies accused of exploitation by eight former child workers who claimed they were used as slave labor on cocoa plantations in West Africa.<sup>35</sup> Exploitation can also occur in developed countries. During the COVID-19 pandemic, fashion brand Boohoo, based in the UK, was criticized for exploiting its garment factory workers by paying them below the minimum wage, failing to enforce social distancing, and instructing employees to attend work even when they had tested positive for COVID-19.<sup>36</sup>
- **Damage traditional and local customs:** MNCs can dilute traditional and local customs by forcing their own views and culture on the host country, a concept called “McDonaldization” by American sociologist George Ritzer.<sup>37</sup> Ritzer believed that the fast-food chain was homogenizing global society by providing cheaper, easier, and unhealthy alternatives to traditional foods.
- **Harm physical environments:** The environment can be negatively impacted by the expansion of businesses worldwide. For example, global drinks giants Coca-Cola, PepsiCo, Nestle, and Unilever were recently reported as being responsible for more than half a million metric tons of plastic pollution in six developing countries where waste collection is poorly managed.<sup>38</sup> The plastic waste often ends up burned or dumped, leading to harmful emissions and scarred landscapes. This is a paradox, given that these same companies actively support and take actions related to the UN Sustainable Development Goals.
- **Susceptible to corruption:** Some MNCs have been prosecuted for their involvement in corrupt practices such as foreign bribery to win business in foreign markets. For example, in 2020, aerospace company Airbus agreed to pay \$4 billion in fines for bribing key decision makers in a number of countries, including Malaysia, Sri Lanka, Indonesia, and Ghana, to land high-value contracts.<sup>39</sup> Foreign bribery erodes public trust, wastes millions of dollars, and fosters corrupt regimes. Each year, Transparency International, a German-based company focused on combating corruption, ranks countries perceived to be the most likely and least likely to accept bribery and other forms of corruption (see Table 2.3).

**TABLE 2.3** ■ Corruption Perceptions Ranked by Country in 2020

Most Corrupt Countries in the World	Least Corrupt Countries in the World
Somalia	Denmark
South Sudan	New Zealand
Syria	Finland
Yemen	Singapore
Venezuela	Sweden

Source: Transparency International. (2020). Corruption Perceptions Index 2020. Transparency International. <https://www.transparency.org/en/cpi/2020/index/nzl>

Although MNCs have been heavily criticized for inflicting harm on the environment and society, they do have the potential to do good. The sheer scale and size of these companies and the revenue they bring in give MNCs the power to invest profits for public good by improving the social and environmental processes in the developing countries in which they operate.<sup>40</sup>

## ETHICS IN BUSINESS

### Stay in Russia or Leave?

Ball Corporation is the world's leading provider of innovative, sustainable aluminum packaging for beverage, personal care, and household products. Though its headquarters are in Broomfield, Colorado, Ball Corporation is a multinational company with business in many countries, including Russia. The company's presence in Russia is important to note, given Russia's full-scale military invasion of Ukraine in early 2022. Proceeding this invasion in an emergency United Nations session, 141 of 193 member states voted to condemn Russia's invasion of Ukraine because Russia's actions arguably violated the UN Charter and involved war crimes and crimes against humanity. The UN demanded that Russia immediately cease its use of force in Ukraine. Russia ignored this condemnation. While many global companies ceased operations in Russia as a show of Ukrainian support, Ball Corporation decided to maintain full business operations in the Russian territory.

### Critical Thinking Questions

1. If you were the CEO of Ball Corporation, would you maintain operations in Russia? Why or why not?
2. Is there an ethical argument in favor of ceasing business operations in Russia?
3. Is there an ethical argument against ceasing business operations in Russia?

## WORKING ACROSS CULTURES

Developing cultural awareness in the country in which a business operates is as important as understanding the legal and regulatory environments. While plenty of companies are embracing cultural differences across their entire workforce (Virgin Group, Disney, and PricewaterhouseCoopers, among others), there are challenges when working across different cultures and languages. For example, French luxury goods company LVMH's acquisition of American jeweler Tiffany in 2021 resulted in a culture clash following an unofficial memo circulated by Tiffany staff outlining some tips on "Franco-American cultural nuances and etiquette." One of these tips stated that French people were more likely to provide negative feedback, were "less warm and fuzzy," and were not inclined to use excessively positive comments such as "amazing" and "fabulous."<sup>41</sup> Although the memo was denounced by Tiffany, it highlighted the cultural differences between the two companies that led to internal conflict and likely misunderstandings.

### Cultural Misunderstandings

Cultural misunderstandings are one of the most common causes of friction between employees. But bridging the divide is not easy, especially when research shows that traditional cultural training based on business etiquette isn't particularly effective. Associate professor Yunxia Zhu, an expert in cross-cultural management and strategy at the University of Queensland Business School, believes anyone can learn to overcome cultural barriers as long as they have the right approach.

According to Dr. Zhu, this involves learning through experience by adopting her situated cultural learning approach (SiCuLA), which focuses on observing and reflecting on the behavior of others before exposing them to the culture—for instance, mixing with people from different cultures in the workplace and watching videos that educate people about different cultures.<sup>42</sup> Traditional cultural training is based on identifying cultural patterns which can only ever be generalisations at the national cultural level," Dr. Zhu explains. "Real life situations are much more complex. So for example, people are often told that Eastern cultures are collectivist and Western ones are individualist, yet people visiting China are often surprised to find that this isn't necessarily true."<sup>43</sup>

Dr. Zhu offers seven ways in which we can manage cross-cultural differences.<sup>44</sup>

1. *Expect the unexpected.* Be careful not to overgeneralize; not all Italians eat pasta, and not all French people wear berets! It is also worth taking into account that different cultures can exist within one country. For instance, there are over 50 different ethnic groups in China, with different ways of behaving in different contexts and with different groups of people.
2. *Study people and cultures.* Anybody can take the time to learn more about different people and their cultures. As Dr. Zhu says, “We learn about our own culture by following the cues from our family and the wider community, so we can do the same with other cultures. We need to develop the skills to observe and reflect on everyday practices, checking our own assumptions, and interpret situations.”
3. *Learn the basics.* With over 3,000 languages spoken throughout the world today, it won't be possible to learn them all, but it is important to be able to greet someone and thank them. With a bit of extra effort, you can learn enough to show your understanding of cultural etiquette; for example, in China, it is a cultural custom to ask someone whether they have eaten.
4. *Take an objective view.* While you might think other cultures are strange, the chances are others will be thinking the same about your customs and behaviors. For instance, U.S. workers are known for working long hours, taking little vacation time, and eating at their desks—factors that may appear odd from another culture's perspective.<sup>45</sup>
5. *Seek advice from an “insider.”* If you are struggling to understand the different customs of another culture, it is useful to find someone from that culture to help bridge the gap. For instance, Dr. Zhu arrived in Australia as a Chinese student. She has spent over 20 years in Australia but still keeps in touch with old friends about cultural practices in China.
6. *Remove the focus from yourself.* Many of us have a tendency to feel self-conscious when immersed in unfamiliar cultures. But making an effort to join in with different cultures and customs by learning a new language, socializing, and reading publications are all positive ways to increase our knowledge and understanding of others.
7. *Keep an open mind.* Even when you think you're getting nowhere with someone else, try to keep an open mind and always strive for a positive outcome. Dr. Zhu says, “Above all we are living in an increasingly multicultural world, and we all have to work with people from different cultures. So we need to develop our cultural awareness and the competencies required for effective collaboration across cultures. There is no such thing as a bigger pie unless we all work together to create it.”<sup>46</sup>

### Cultural Competence

Research shows that people who are culturally competent tend to share certain characteristics (see Table 2.4). **Cultural competence** is the set of values, behaviors, attitudes, and practices that enables individuals and organizations to interact effectively with people across different cultures.<sup>47</sup>

We need to be aware of and develop these competencies in order to excel in cross-cultural situations. Dr. Milton Bennett's developmental model of intercultural sensitivity (DMIS) is composed of six developmental stages of cultural competence.<sup>48</sup> The six stages start from least complex and sophisticated to the most. As we become more culturally aware and have more global experiences, we can grow our cultural competence. The six stages are:

1. *Denial:* When people don't believe or recognize that cultural differences exist.
2. *Defense/reversal:* When people recognize cultural differences exist but feel threatened by these differences (defense). In contrast, reversal takes place when people criticize their own culture in favor of another culture; for example, people who have immersed themselves in a different culture may prefer the new culture over their own.

**TABLE 2.4 ■ Characteristics of Culturally Competent People**

Openness to cultural diversity
Flexibility and adaptability
Emotional resilience
Curiosity
Tolerance and respect for differences
Patience
A nonjudgmental attitude
Global identity
Cultural intelligence
Global leadership behaviors
Multicultural experiences, such as being multilingual and having lived in more than one country

Source: Adapted from Society for Human Resource Management. (2015, November 30). Understanding workplace cultures globally. *SHRM*. <https://www.shrm.org/resourcesandtools/tools-and-samples/toolkits/pages/understandingworkplaceculturesglobally.aspx>

3. *Minimization*: When people are aware of cultural differences but focus on the similarities between them rather than the differences.
4. *Acceptance*: When people have a deep understanding and appreciation of their own and others' cultural identities and perceptions.
5. *Adaptation*: When people change their reasoning, behavior, and actions to new and different cultures.
6. *Integration*: When people have a deep understanding of one or more cultures and successfully integrates them into their own identity.

Business professionals also need to be culturally aware to build relationships with foreign colleagues. This could be as simple as pronouncing employees' names correctly and ensuring others do the same, learning cultural differences, or assigning a new foreign colleague a mentor to help navigate the organization and cultivate relationships.

The best way to learn about another culture and develop a relationship with a foreign colleague is to ask questions and show authentic curiosity. Because the biggest obstacle to successful cross-cultural diversity is communication. Being concise, listening better, and demonstrating respect for cultural and religious differences help to improve communications between multicultural teams (see Chapter 14: Communication).

## MODELS TO HELP IMPROVE YOUR CULTURAL AWARENESS

People with little exposure to other cultures often assume that most of their values and assumptions about how the world works are universal. For example, someone in the "denial" stage of the DMIS model discussed above might think that people in the United States, China, New Zealand, and Sweden all have similar ideas about what it means to be successful and the ways that businesses and customers should interact. In reality, there is a great deal of variety among cultures about what is valuable and how to interact with each other.<sup>49</sup>

In a global economy, being unaware of such differences can lead to embarrassment, lost business, and legal troubles. For example, berating somebody in public in Indonesia is a cultural mistake that

may lead to real offense.<sup>50</sup> Organizations that develop cultural awareness have a higher chance of navigating cultural differences and are less likely to encounter cultural mishaps.

**Cultural awareness** is the understanding that our own culture (customs, social behaviors, attitudes, and values) differs from others. Most often used in the context of different countries, cultural awareness can pertain to any group of people. It can facilitate stronger and more profitable business relationships with companies and clients in other countries and a more diverse, flexible, and creative workforce within a single company.

Because of the impact of globalization, businesspeople need to have a good understanding and working knowledge of cultural differences and influences when operating in a business environment. The following models can help to improve your cultural awareness when either working with international team members or in international contexts.

### Hofstede Model of Cultural Dimensions

Over 30 years ago, Dutch sociologist and IBM psychologist Geert Hofstede created the Hofstede model of cultural dimensions research identifying five dimensions that vary across different cultures.

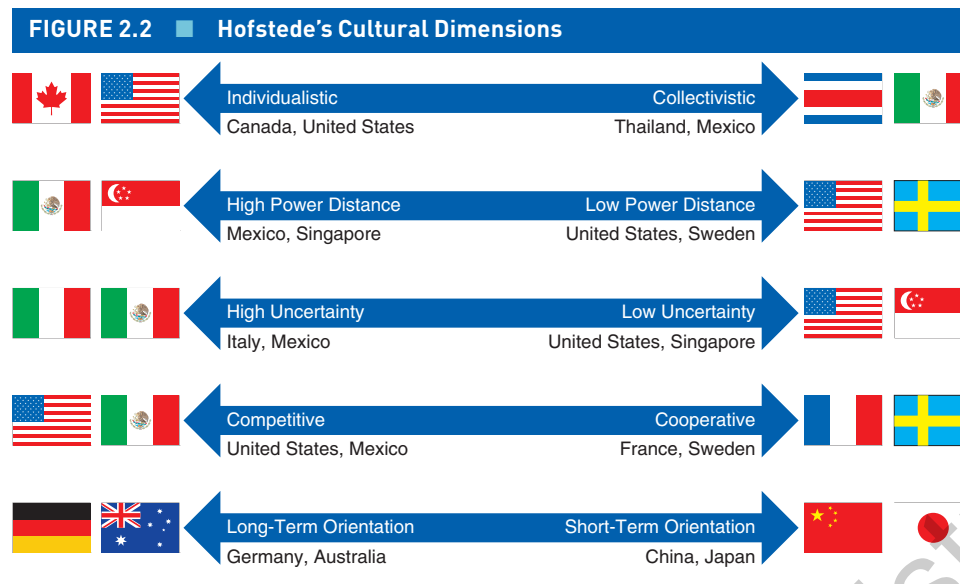
Based on research from more than 100,000 IBM employees in 53 countries, Hofstede identified five dimensions that varied among different cultures:<sup>51</sup>

1. *Individualism versus collectivism.* Individualism is a social view that values individual freedom and self-expression and assumes that individuals are responsible for their own welfare. Collectivism, on the other hand, values the welfare of the group over any one individual and emphasizes the responsibilities of individuals and groups (families and organizations) to each other.
2. *Power distance.* A high ranking on the power distance dimension means that people from a particular culture accept an unequal distribution of power. A low ranking means that people expect a more equal distribution of power.
3. *Uncertainty avoidance.* The higher the ranking on the uncertainty avoidance dimension, the more uncomfortable people are with uncertainty and ambiguity. They are more at ease with conformity and with events that follow an expected structure. Societies with low uncertainty avoidance are more comfortable with a lack of structure and the unexpected.
4. *Competition versus cooperation.* *Competitive* and *cooperative* refer to whether the society as a whole places greater value on performance, achievement, material success, and contest or on quality of life, collaboration, personal relationships, and group decision making. This dimension is also referred to as “masculine versus feminine.”
5. *Long-term versus short-term orientation.* Countries that tend toward long-term orientation are more concerned about the future than the present and value thrift and perseverance. Countries that tend toward short-term orientation, on the other hand, are more concerned with the present and past and value tradition and social obligations.<sup>52</sup>

As depicted in Figure 2.2 below, different countries are high and low across the dimensions. The differences can help explain operational differences among companies and people around the world.

Given that Hofstede’s dimensions, though still widely used, were created by Hofstede and his colleagues at IBM working across dozens of different countries, many have disagreed with the universal aspect of the dimensions, arguing that the model focuses too much on one company. Since the emergence of Hofstede’s work, other researchers have developed more current frameworks to help us increase and develop our cultural awareness.





Source: Neck, C. P., Houghton, J. D., & Murray, E. L. (2021). *Management*. SAGE.

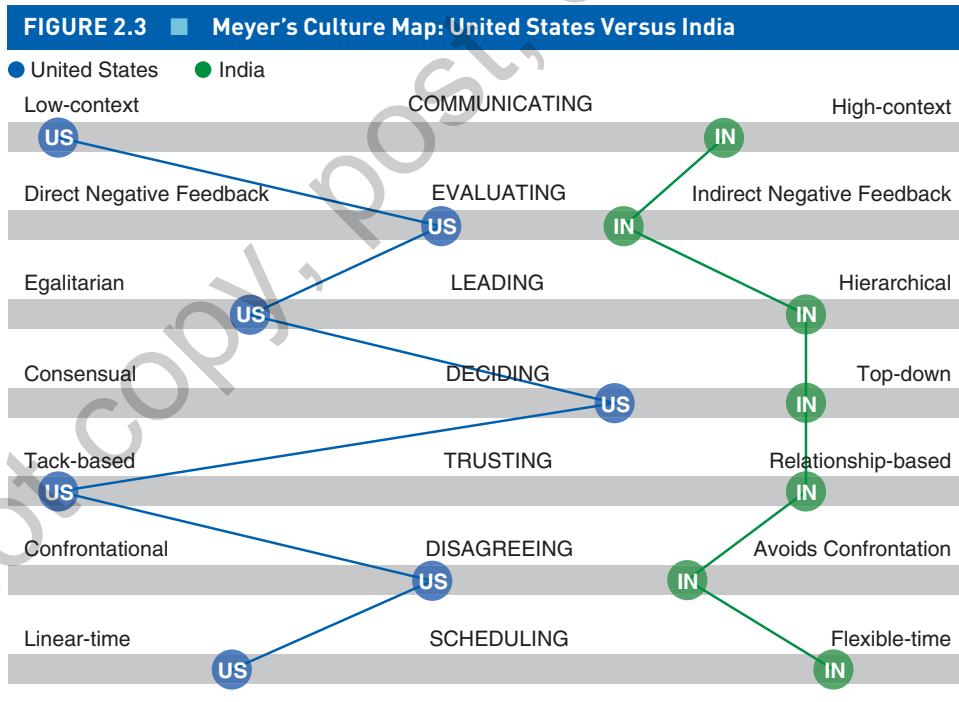
### Meyer's Cultural Map

Erin Meyer, INSEAD professor and author, created a culture map composed of eight scales showing the most common cultural gaps between countries.<sup>53</sup> Figure 2.3 compares the U.S. and Indian business cultures based on eight behavior scales, detailed below:

1. The Communication Scale measures the differences in communication between low-context and high-context cultures, a method created by anthropologist Edward T. Hall. In *low-context cultures*, communication is explicit, clear, and precise, and conveyed through the spoken or written word. Most of what is communicated is understood at face value. Many European countries (Denmark, Germany, Sweden, and Norway) and Western countries such as the U.S. and Canada are regarded as low-context cultures. In contrast, in *high-context cultures*, communication is more subtle and nuanced, with most messages conveyed through body language, nonverbal cues. Japan, China, and Arab countries are considered to be high-context cultures.<sup>54</sup>
2. The Evaluating Scale measures how receptive different cultures are to constructive criticism in the context of straightforward versus diplomatic feedback. For example, the French tend to be quite direct in their criticism, using more forthright language to express their thoughts, whereas Japanese people are more inclined to use softer, gentler language to share their feedback.
3. The Persuading Scale determines the different approaches used by different cultures to persuade others. For instance, people from southern European and Germanic cultures tend to share an idea or concept before presenting their argument, whereas American and British people are more likely to begin their message with a fact or a statement to persuade others.
4. The Leading Scale measures the cultural differences in leading styles, ranging from egalitarian (the belief that all people should be treated equally), and hierarchical (where treatment is determined by societal rank). The Netherlands and Denmark are examples of egalitarian cultures, whereas Nigeria and China tend to follow more hierarchical structures.<sup>55</sup>
5. The Deciding Scale assesses the degree of group decision making in different cultures. Although Germans are more hierarchical than Americans, they are more likely to engage in group decision making and build group consensus before making decisions.

6. The Trusting Scale gauges the degree to which trust is task-based (trust built through work collaboration) or relationship-based (trust developed by making a personal connection). In the U.S., trust tends to be task-based, while in countries such as Russia and Israel, trust is formed on the basis of shared personal experience.
7. The Disagreeing Scale determines the tolerance for open disagreement and whether it is perceived as helpful or harmful to relationships. Countries such as France and Israel are considered confrontational cultures where disagreements do not impact relationships, but other cultures like Japan and Indonesia avoid open confrontation for fear of disrupting the harmony within the group.
8. The Scheduling Scale gauges the value placed on linear schedules (completing one task before moving on to the next task) or flexible schedules (working on two or more tasks at the same time). Germany, Switzerland, and Japan tend to work to a linear schedule, whereas Saudi Arabia and India are more flexible with their timelines.

Meyer’s culture map is an effective guide for businesspeople to understand different cultural characteristics, bridge cultural gaps, and adjust their communication style and create better working relationships within global teams. Figure 2.3 compares the U.S. and Indian business cultures based on seven out of Meyer’s eight behavior scales. As you examine the figure, think less about where each node is for the U.S. or India; rather, focus on the distance between each node. Longer distances between nodes signal significant cultural gaps that may lead to misunderstandings, conflict, or difficulties conducting business.



Source: Meyer, E. (n.d.). *The country mapping tool*. <https://erinmeyer.com/tools/culture-map-premium/>

### Molinsky’s Six-Dimension Framework for Global Dexterity

Andy Molinsky, author and professor of international management and organizational behavior at Brandeis University’s International Business School, developed a six-dimension framework for global dexterity to capture differences across cultures. **Global dexterity** is the ability to adapt your behavior to be effective when interacting with other cultures without losing your sense of self in the process.<sup>56</sup> The framework is composed of the following questions:

1. Directness: How directly do people communicate in that particular culture?
2. Enthusiasm: How much positivity and energy do people demonstrate?
3. Formality: How much deference and respect do people show each other?
4. Assertiveness: How passionately do people express their opinions?
5. Self-promotion: How appropriate is it for people to speak about their achievements?
6. Self-disclosure: How willing are people to divulge information about themselves?<sup>57</sup>

Molinsky's dimensions can be used to compare any two cultures within a workplace context. Table 2.5 outlines comparisons of two cultures: India and the United States, based on three of the dimensions.<sup>58</sup>

	United States	India
Dimensions		
Enthusiasm	<i>Moderately high</i> Expectation to show excitement for work accomplishments.	<i>Low</i> Inappropriate in formal, professional settings.
Assertiveness	<i>Moderately high</i> Strong inclination to be perceived as a "go getter."	<i>Low</i> Considered too aggressive. Preference for deference and composure.
Self-Promotion	<i>Moderately high</i> Expectation for people to promote themselves.	<i>Low</i> Openly speaking about achievements is regarded as arrogant and distasteful.

Molinsky's framework is a useful way to gain more knowledge and understanding about the cultural rules in different countries while also helping to relieve the discomfort and anxiety some people may experience when they are trying to communicate in an unfamiliar cultural setting. To address these cultural challenges, Molinsky suggests learning the rules of how to behave, trying out new behaviors (as long as they fall within your comfort zone), rehearsing and practicing these behaviors to gauge people's reactions to them, and adjusting these behaviors where necessary.<sup>59</sup>

As Molinsky notes, "I want people to know that this isn't rocket science. You don't need to have lived in five countries and learned five languages to be successful across borders. You do need to be thoughtful and self-aware, and you need to be willing to take the leap into the unknown."<sup>60</sup>

## IN REVIEW

### 2.1 Explain why all business today is global.

The globalization of technology has led to a new "flattened" world where greater collaboration and competition can flourish without boundaries. This explosion of *global trade*, the exchange of goods and services between countries, has led to an exponential rise in the value of goods exported throughout the world. *Importing* the buying of products overseas and reselling them in one's own country and *exporting* the sale of domestic products to foreign customers are the oldest and most prevalent forms of international trade. Today's businesses face many global challenges such as navigating different legal and regulatory environments, and understanding political and cultural considerations.

**2.2 Describe the various types of trade restrictions and implications for business advantage.**

There are five main types of trade restrictions: trade surplus, balance of payments, tariffs, quotas, and embargoes. A *trade surplus* occurs when a nation imports more than it exports. *Balance of payments* is a record of international trade and the flow of financial transactions made between a country's residents and the rest of the world. A *tariff* is a tax or duty paid on imported goods, and an "*ad valorem*" *tariff* is a tax paid based on a proportion of the value of imported goods. An *embargo* is a trade restriction imposed by the government of the exchange of goods or services with a particular country or countries. An *import quota* is a type of trade restriction that sets a *limit* on the quantity of particular goods being imported into a country during a given period of time. An *absolute quota* is the maximum number of specific goods permitted to enter a country during a specific time period, and a *tariff rate quota* is a two-tiered quota system that allows a specified quantity of product to be imported at a lower tariff rate. *Absolute advantage* is the ability of a country or business to produce certain products more efficiently than its competitors. *Comparative advantage* is the ability of a nation to produce a product at a lower opportunity cost compared to another nation.

**2.3 Explore how startups to multinational corporations compete globally.**

A company that operates in its own country as well as other different countries around the world is known as a *multinational corporation (MNC)*. An MNC usually maintains a central office in its home country, which coordinates the management of all its other operations in other countries such as suppliers, factories, other branches, etc. Although MNCs have been heavily criticized for inflicting harm on the environment and society, they do have some benefits, including the potential to do good.

**2.4 Appreciate the challenges of working across cultures.**

It is essential for businesses to gain a deep insight into cultural differences in order to work effectively across different cultures and languages and avoid cultural misunderstandings. A level of *cultural competence*—the set of values, behaviors, attitudes, and practices that enables individuals and organizations to interact effectively with people across different cultures—is required to understand cultural differences and influences when operating in a business environment.

**2.5 Compare different models to help build cultural awareness.**

There are several different models that help improve cultural awareness: *Hofstede model of cultural dimensions* research that identifies five dimensions that vary across different cultures; Meyer's culture map research composed of eight scales showing the most common cultural gaps between different countries; and Molinsky's six-dimension framework for global dexterity—a six-dimension framework for global dexterity to capture differences across cultures.

### BUSINESSES DISCUSSED IN THIS CHAPTER

Organization	UN Sustainable Development Goal
Airbnb	7. Affordable and Clean Energy 11. Sustainable Cities and Communities
Airbus	4. Quality Education 5. Gender Equality 8. Decent Work and Economic Growth 9. Industry, Innovation, and Infrastructure 12. Responsible Consumption and Production 13. Climate Action 16. Peace, Justice, and Strong Institutions 17. Partnerships to Achieve the Goals

Organization	UN Sustainable Development Goal
Amazon	7. Affordable and Clean Energy 8. Decent Work and Economic Growth 9. Industry, Innovation, and Infrastructure 13. Climate Action
Apple	7. Affordable and Clean Energy 12. Responsible Consumption and Production
BP	9. Industry, Innovation, and Infrastructure 10. Reduced Inequality 12. Responsible Consumption and Production 13. Climate Action
Coca-Cola	6. Clean Water and Sanitation 11. Sustainable Cities and Communities 12. Responsible Consumption and Production 13. Climate Action
Facebook	13. Climate Action
Google	12. Responsible Consumption and Production 14. Life Below Water 15. Life on Land
IKEA	3. Good Health and Well-Being 11. Sustainable Cities and Communities 12. Responsible Consumption and Production
Intel	5. Gender Equality 11. Sustainable Cities and Communities 12. Responsible Consumption and Production
L'Oreal	7. Affordable and Clean Energy 12. Responsible Consumption and Production
LVMH	12. Responsible Consumption and Production 13. Climate Action
New Balance	7. Affordable and Clean Energy 12. Responsible Consumption and Production 13. Climate Action
Shell	3. Good Health and Well-Being 5. Gender Equality 6. Clean Water and Sanitation 7. Affordable and Clean Energy 8. Decent Work and Economic Growth 9. Industry, Innovation, and Infrastructure 10. Reduced Inequality 12. Responsible Consumption and Production 14. Life Below Water 15. Life on Land 16. Peace, Justice, and Strong Institutions 17. Partnerships to Achieve the Goals
Starbucks	6. Clean Water and Sanitation 11. Sustainable Cities and Communities
Volkswagen	7. Affordable and Clean Energy 9. Industry, Innovation, and Infrastructure 12. Responsible Consumption and Production 13. Climate Action
Walmart	2. Zero Hunger 5. Gender Equality 7. Affordable and Clean Energy 12. Responsible Consumption and Production 13. Climate Action

## KEY TERMS

Absolute advantage (p. 30)	Import quota (p. 30)
Absolute quota (p. 30)	Importing (p. 26)
“Ad valorem” tariff (p. 28)	Multinational corporation (MNC) (p. 31)
Balance of payments (p. 28)	Protectionism (p. 28)
Comparative advantage (p. 30)	Sanitary embargo (p. 29)
Cultural awareness (p. 38)	Strategic embargo (p. 29)
Cultural competence (p. 36)	Tariff (p. 28)
Embargo (p. 29)	Tariff rate quota (p. 30)
Exporting (p. 26)	Trade embargo (p. 29)
Global dexterity (p. 40)	Trade restriction (p. 28)
Global trade (p. 25)	Trade surplus (p. 28)

## BUSINESS CASE 2.2: REEL—SANTA MONICA, CALIFORNIA

## SDG 17: Partnership for the Goals

All business today is global in our increasingly interconnected world. Although there are challenges to doing business globally, there are also opportunities for significant impact. This is what spurred entrepreneurs Derin Oyekan and Livio Bisterzo to start Reel, a company dedicated to creating environmentally sustainable, eco-friendly paper products while also improving the health and livelihoods of people living in underresourced communities around the world.

Launched in 2019, Reel focuses on two main paper products: toilet paper and paper towels. Toilet paper might not be the first thing that comes to mind when considering innovative business ideas that support a safer, healthier planet, but it happens to be one of the biggest drivers of global climate change. Because toilet paper is one of the largest consumer product categories, it requires vast environmental resources to manufacture. Conventional toilet paper is created from harvesting trees—lots of them, which contributes to greater rates of deforestation. For decades, paper production industry leaders have been using machine-intensive, clear-cutting techniques that contribute heavily to this deforestation. Deforestation leads to climate change because lack of trees can lead to significant changes in weather patterns. Clear-cutting trees not only destroys fragile and vital forested ecosystems, leaving barren land in its wake, but it also further harms the planet through carbon emissions. The National Resource Defense Council reported that approximately 26 million metric tons of carbon are emitted each year through logging practices in Canada’s Boreal Forest alone. This is immense, given that one metric ton is as big as a telephone pole or weighs as much as 400 bricks, and that is just one metric ton of carbon.

Reel’s solution to this problem is to completely change the manufacturing process by going tree-free. Reel paper products are made with bamboo, a renewable grass, rather than the wood from trees, making the process and the product far more eco-friendly and environmentally sustainable. The company’s products are also free of inks, dyes, and BPA (a potentially harmful chemical); are septic safe; and use only sustainable, plastic-free packaging. The company has already sold millions of rolls of toilet paper online and exclusively through Target. According to Reel, each purchase of its specialty pack helps save 27,000 trees that are currently cut down every day for the conventional manufacturing of toilet paper.

Reel has a very strong online business as well as an exclusive relationship with Target. You would think founders Derin and Livio would be thrilled with their early success, but they have a vision of broader global impact. Sanitary bathroom conditions, such as flushable toilets and access to toilet paper, are often an assumed everyday staple in many developed countries, but these conditions are nonexistent in many of the underdeveloped parts of the world. Over 2.4 billion people worldwide lack access to toilets and sanitary waste disposal, and Reel has launched the Reel Change platform to address this health crisis. A percentage of every package of Reel toilet paper sold goes toward helping to improve sanitary waste disposal conditions around the world.

It has also partnered with SOIL, a nonprofit organization located in Haiti dedicated to implementing safe and sustainable solutions for waste management. Only 30% of the Haitian population has access to sanitary waste facilities, and less than 1% of waste is treated safely, giving rise to diseases such as cholera. Reel’s partnership with SOIL has resulted in the creation of over 1,200 toilets and access to clean sanitation for over 7,300 people in Haiti. “Ultimately, the goal is to have impact,” said

Reel cofounder Derin. “With Reel right now, just knowing that we are literally changing lives with our partnership with SOIL is incredibly rewarding and continues to fuel our drive to do better.”

Reel emphasizes the role of community and collaboration in improving the lives of everyone: “We’re all connected—by the earth, by the way we treat each other, and by the world we leave behind for the next generation.”

### Critical Thinking Questions

1. Why is bamboo a more sustainable raw material for making toilet paper?
2. Are larger companies that produce toilet paper (e.g. Procter & Gamble that makes Charmin) likely to start using bamboo? If yes, what will this do to Reel?
3. Reel founders Derin and Livio targeted a small segment of the paper market to help improve the planet. Can you think of other markets or products that could be targets for aspiring entrepreneurs?

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