CHAPTER 5

Structures of International Business Organizations

5-1 Forms of Business Ownership
5-2 Operations of Global Businesses
5-3 Starting Global Business Activities
Mitsubishi: From Trading Company to Multinational Corporation

Founded by Yataro Iwasaki as a trading company in 1870, Mitsubishi soon became involved in mining, banking, shipbuilding, railroads. The family-run conglomerate continued to grow and expanded into other business activities. In 1946, the organization divided into over 100 separate entities.

Twelve years later, Mitsubishi Trading established a division in the United States to export U.S. goods and to import raw materials to Japan. As a result of growth and foreign investments, Mitsubishi has expanded into 30 different manufacturing and service areas including financial services, information technology, chemicals, food products, motor vehicles, paper mills, steel, glass production, energy plants, and textiles and clothing.

The company describes itself as a “community with a multitude of independent companies,” with approximately 200 member companies. In addition, an informal group of associated companies also exists. In total, more than 400 separate enterprises worldwide use the Mitsubishi name, while hundreds of other divisions of the organization operate under different names. Despite what appears to be a loose business operation, the organization is unified by three guiding principles: corporate responsibility to society, integrity and fairness, and international understanding through trade.

In addition to its many divisions, the Tokyo-based company has business partners around the world. For example, Mitsubishi is part owner of the world’s highest-producing copper mine in Chile. QDM, a joint venture of Mitsubishi Heavy Industries, China Shipbuilding Industry, and Wartsila Corporation of Finland, manufactures marine diesel engines. Caterpillar and Mitsubishi have a joint venture agreement to manufacture and market forklifts around the world. Mitsubishi is truly a global company.

Think Critically

1. What economic and social factors may have contributed to Mitsubishi actions to being involved in a wide variety of goods and services?
2. How might Mitsubishi expand its international business activities in the future?
3. Go to the Mitsubishi web site to obtain additional information about the company’s structure and main business divisions. Prepare a brief written or oral summary.
The Sole Proprietorship

Have you ever wondered how a business gets organized? Almost every company you can think of started small with the efforts of one or two people. Both Microsoft and Apple Computer were started by people who had ideas for a new business opportunity. As a business grows in size, the company is likely to expand its operations and increase the number of owners. Every business organizes as one of three types: sole proprietorship, partnership, or corporation.

Most companies in the world are started and owned by one person. In the United States, more than 70 percent of all businesses are sole proprietorships. A sole proprietorship is a business owned by one person. Many of the stores, companies, and other businesses you see each day have a single owner, even though they employ many people.

For a person to start a sole proprietorship, three major elements are needed. First, the new business owner must have a product or service to sell. Second, money for a building, equipment, and other start-up expenses will be required. Third, the owner must know how to manage the business activities of the company or hire someone else who knows how.

ADVANTAGES OF A SOLE PROPRIETORSHIP

Before you decide to organize your business as a sole proprietorship, you need to consider the advantages and disadvantages of this form of business organization.
Ease of Starting  Obtaining a business license and meeting other minor legal requirements are usually the only steps needed to start a sole proprietorship. Your idea, funds, and willingness to accept the risk associated with running a business are all you need to get started. Throughout the world each day, thousands of people start companies that serve their customers and create employment opportunities.

Freedom to Make Business Decisions  As a sole proprietor, all company decisions are your own. As the single owner, you can run things yourself or hire others.

Owner Keeps All Profits  The difference between money taken in and payments for expenses is called net income or profit. Because you are taking all of the risk, you receive all of the financial rewards.

Pride of Ownership  As your own boss, you have the chance to see the results of your efforts. Many people like to have their own company so they do not have to work for someone else.

DISADVANTAGES OF A SOLE PROPRIETORSHIP

Even though there are advantages to running a business as a sole proprietorship, there are also disadvantages to this form of business organization.

Limited Sources of Funds  The ability to raise money for a sole proprietorship is limited to the owner’s contribution plus loans. As a new business owner, lenders may see you as a risky borrower. Even if you get a loan, it is likely to have a high interest rate, which will add to the cost of operating the business.

Long Hours and Hard Work  Because many new and small companies find it difficult to compete against established businesses, you will probably put in many long hours. When you own your own business, you cannot call in sick or take a vacation unless you have dedicated employees you trust.

Unlimited Risks  In other forms of business organizations, several owners share the risks. As the sole owner, you are responsible for all aspects of the enterprise. The owner has unlimited liability. Unlimited liability means that the owner’s personal assets can be used to pay for any debts of the business.

Limited Life of the Business  If the owner dies or is unable to run the business, the enterprise will either cease to exist or be sold to someone else. When the business is sold, it becomes a different company with a new owner.

✓ CheckPoint

What is unlimited liability?
Partnership

A partnership is a business that is owned by two or more people, but is not incorporated. A partnership may be organized when a company needs more money or the talents of additional people. Each owner, or partner, usually shares in both the decision making for the company and the profits.

Partnerships can be formed for any type of business. Stores, manufacturing companies, and restaurants can be organized as partnerships. Law firms and many professional sports teams use this type of ownership format.

ADVANTAGES OF A PARTNERSHIP

Although partnership is not as common as sole proprietorship, organizing a business as a partnership has three important advantages.

Ease of Creation A partnership is easy to start. A written agreement is created to communicate responsibilities and the division of profits.

Additional Sources of Funds With several owners, a partnership can raise more capital, expand business activities, and earn larger profits.

Availability of Different Talents Many partnerships can take advantage of the different skills of people. One partner may be responsible for selling, another takes care of company records, while a third supervises employees.

DISADVANTAGES OF A PARTNERSHIP

Even though there are advantages to running a business as a partnership, there are also disadvantages to this form of business organization.

Partners Are Liable As with the sole proprietorship, a partnership has unlimited liability. Any or all of the partners may be held personally responsible for the debts of the business.

Profits Are Shared among Several Owners The written partnership agreement determines the division of profits. Even if an uneven workload occurs, the net income is divided based on the agreement.

Potential for Disagreement among Owners Differences in opinions are likely to occur in every work situation. Two or more people who work closely together may have disagreements. Some people suggest that you avoid going into business with friends or relatives to prevent possible personal conflicts.

Business Can Dissolve Suddenly When one partner dies or cannot continue in the partnership, the business must stop. At this point, a new company and partnership agreement must be created. This may not be easy because some of the company assets may have to be sold to buy the departing partner’s share of the business.
Corporation

While sole proprietorships are the most common type of business in the United States, corporations account for more than 80 percent of the sales, as shown in Figure 5-2. A corporation is a business that operates as a legal entity separate from any of the owners.

A corporation raises money for business activities through the sale of stock to individuals and organizations that wish to be part owners of the corporation. The owners of a corporation are called stockholders, or shareholders. Stockholders usually have two main rights. The first is to earn dividends, and the second is to vote on company policies. Many people buy stock in corporations to earn dividends, which are a share of company profits.

Stockholders also indirectly control the management of the company. A stockholder typically has one vote for each share of stock owned. The stockholders vote to elect the board of directors of the company. The board of directors hires managers to run the company.

Unlike sole proprietorships and partnerships, in which individual owners are responsible for any actions of the business, corporations act as a legal entity on behalf of the owners.

**ADVANTAGES OF A CORPORATION**

A corporation has several advantages when compared to partnerships and sole proprietorships.

**More Sources of Funds** As a result of having many people interested in being part owners, corporations have an easier time raising funds than a sole proprietorship or partnership. A company can use this capital to start or expand the business. It might be used to operate the business, to purchase equipment or to build factories.
Fixed Financial Liability of Owners The business risk of a corporation is spread among many owners. A company such as General Electric or Wal-Mart has thousands of stockholders. Each person who buys a share of stock has **limited liability**, which means stockholders are only responsible for the debts of the corporation up to the amount they invested. Unlike sole proprietors and partners, people who become part owners of a corporation can only lose the amount of money paid for the stock.

**Specialized Management** Most corporations can afford to hire the most skilled people to run the company. The board of directors of the corporation hires the president and other administrative employees.

**Unlimited Life of the Company** Unlike a sole proprietorship or partnership, a corporation is a continuing entity. When stockholders die or sell out, the company still exists. Ownership just transfers to other people.

**DISADVANTAGES OF A CORPORATION**

Even though there are advantages to running a business as a corporation, there are also disadvantages of this form of business organization.

**Difficult Creation Process** The organizers of a corporation must usually meet complex government requirements. A **charter** is the document granted by the state or federal government that allows a company to form a corporation.

**Owners Have Limited Control** Unless you own a large portion of the stock, you are unable to influence the operations of a corporation. Small or family-held corporations may have only a few stockholders, but most large corporations are owned by thousands of people.

**Double Taxation** Sole proprietors and partners pay individual income tax on their companies’ earnings. However, a corporation pays corporate income taxes as a separate entity. Then stockholders pay personal income tax on the dividends they receive. Therefore, corporate earnings are taxed twice.

**GLOBAL BUSINESS SPOTLIGHT**

**CORPORATE NOTATIONS**

In the United States, you can tell that a business is a corporation if the word *corporation* is in the company name or the abbreviation *Inc.* (incorporated) follows the company name. In Canada, Japan, and the United Kingdom, *Ltd.* (limited) is used, referring to the limited liability of the owners. The notation used in other countries varies depending on the words, phrases, and symbols that represent the concept of incorporation in various languages. Examples of some other common corporate notations are listed below.

- France, Belgium: Sarl
- Germany, Switzerland: GmbH
- Italy: Srl
- France, Belgium: Sarl
- Spain, Mexico, Brazil: S.A.
- Netherlands: N.V.
- Denmark: A/S
- Denmark: A/S
- Spain, Mexico, Brazil: S.A.
- Netherlands: N.V.

**Think Critically**

1. Conduct an Internet search to find some corporations based in other countries.
2. What cultural factors might influence corporate notations?
Other Forms of Business Organization

Most businesses are organized as sole proprietorships, partnerships, or corporations. However, other types of business organization exist for special situations. Increasingly, many of them also engage in international business activities.

A municipal corporation is an incorporated town or city organized to provide services for citizens rather than to make a profit. You might think that a city would only engage in local activities. However, many cities have partnerships with cities in other countries, import goods and services, and engage in cultural exchanges.

Nonprofit corporations are created to provide a service and are not concerned with making a profit. Included in this category are churches, synagogues, and mosques, some hospitals, private colleges and universities, many charities, the American Red Cross, Boy Scouts of America, and The Salvation Army. Nonprofits provide a significant portion of the jobs in the labor force in some countries. These organizations employ more than 6 percent of the total workforce in the Netherlands, Ireland, Belgium, Israel, United States, Australia, and Britain. Many local nonprofit organizations are affiliated with international organizations.

Nonprofit organizations are also referred to as nongovernmental organizations, or NGOs. In recent years, NGOs such as labor unions, environmental groups, and public interest organizations have taken action on various social and economic issues. Labor groups are concerned about lost jobs and safe working conditions, while environmental organizations work to protect clean air and water.

A cooperative is a business owned by its members and operated for their benefit. Consumer cooperatives may be formed by a group of people in a community or at a place of worship. The group is organized to purchase food or other goods and services at a lower cost than usual. Any profits are returned to the cooperative members. A credit union is a cooperative created to provide savings and loan services to its members.

✓ CheckPoint

Discuss situations when municipal corporations, nonprofit corporations, and cooperatives would be the best business organization to implement.
5-1 Assessment

REVIEW GLOBAL BUSINESS TERMS

Define each of the following terms.

1. sole proprietorship
2. net income, or profit
3. unlimited liability
4. partnership
5. corporation
6. stockholders, or shareholders
7. dividends
8. limited liability
9. charter
10. municipal corporation
11. nonprofit corporation
12. cooperative

REVIEW GLOBAL BUSINESS CONCEPTS

13. What are the advantages of a proprietorship?
14. What are the disadvantages of a partnership?
15. What are the disadvantages of a corporation?
16. Give an example of a municipal corporation, a nonprofit corporation, and a cooperative.

SOLVE GLOBAL BUSINESS PROBLEMS

For each of the following situations, what type of business organization would you recommend?

17. A group of programmers in India plan to start a software company and sell stock to other investors.
18. A person in Italy wants to turn a jewelry-making hobby into a business.
19. Three doctors in Bali wish to share office space, staff, and equipment.
20. Three friends in Finland are opening a small store to sell sports equipment.

THINK CRITICALLY

21. “Because of the advantage of limited liability, every business should be organized as a corporation.” Do you agree? Explain.
22. Is buying stock in a corporation a good investment?
23. How do nonprofit organizations benefit society?

MAKE ACADEMIC CONNECTIONS

24. BUSINESS Name a sole proprietorship, a partnership, and a corporation in your community. Speculate about why each of these businesses chose its form of organization.
25. CULTURAL STUDIES Why are nonprofit organizations more popular in some countries than others?
Multinational Companies

In 1670, King Charles II of Britain granted a business charter to create a trading company named after English explorer Henry Hudson. The Hudson's Bay Company started as an international fur trading enterprise and today operates nearly 500 stores throughout Canada.

Just as the Hudson's Bay Company started as a global business, many firms today operate in several countries. A multinational company or corporation (MNC) is an organization that conducts business in several countries. MNCs are also called global companies, transnational companies, and worldwide companies. Figure 5-3 shows an example of the global business operations that a multinational company might have.

MNCs usually consist of a parent company in a home country and divisions or separate companies in one or more host countries. For example, Mitsubishi of Japan (home country) consists of more than 200 companies doing business in more than 70 countries (host countries). Whirlpool has manufacturing facilities in North America, South America, Europe, and Asia with products sold in more than 170 countries. Coca-Cola sells its products in about 200 countries.

Figure 5-3 A multinational company has business operations in different countries.
Today, as a result of widespread international business activities, thousands of multinational corporations exist. Many of these companies are very large. Royal Dutch/Shell, Exxon, Wal-Mart, General Electric, IBM, and Toyota each have annual sales that exceed the GDP of many countries in the world.

MULTINATIONAL COMPANIES IN OPERATION

Multinational companies get involved in global activities to take advantage of business opportunities in other geographic areas. The potential for MNCs to sell goods or services in other countries is the result of a competitive advantage held by a company. This edge can be the result of technology, lower costs, location, or availability of natural resources.

Another major activity of MNCs is adapting to different societies. Social and cultural influences along with political and legal concerns must be continually monitored. For example, if a company is not aware of changes in a country’s tax law, the result could mean lower profits.

CHARACTERISTICS OF MULTINATIONAL COMPANIES

Multinational companies commonly have the following characteristics:

- **Worldwide Market View** They view the entire world as their potential market. Companies seek product ideas through foreign subsidiaries and obtain raw materials on a worldwide basis.

- **Standardized Product** Companies look for similarities among markets to offer a standardized product whenever possible.

- **Culturally-Sensitive Hiring** They use consistent hiring policies throughout the world but are also culturally sensitive to host countries. The companies recruit managers internationally rather than just from the organization's countries of operation.

- **International and Local Perspective** Businesses distribute, produce, price, and promote both with an international outlook and a local perspective.

KOMATSU ABANDONS JAPANESE FOR ENGLISH

When industrial giant Komatsu was founded in Japan, it marketed its products within the country. The Japanese language served Komatsu well.

As Komatsu expanded and began to market its heavy equipment elsewhere in the region, it continued to rely primarily on Japanese. However, as Komatsu developed worldwide markets in direct competition with the likes of Caterpillar, the Japanese language proved to be a handicap. Its employees and customers increasingly were not fluent in Japanese, which created major communication problems. To better compete in the global marketplace, Komatsu decided that it needed to switch from Japanese to English.

The transition is in process—even at the home office in Japan. To facilitate the conversion to English, Komatsu is providing its employees with English language lessons. Over time, Komatsu will reach its goal of being an English-speaking multinational organization.

**Think Critically**

1. Why did Japanese serve Komatsu reasonably well when it expanded into nearby countries?
2. What do you think would be some of the challenges for a business that abandons the language of the home country?
**Concerns about Multinational Companies**

The presence of a multinational company can have many benefits for a host country. Benefits include more jobs, products, services, and even improved infrastructure, such as roads, built by the MNC. However, there are two main concerns about MNCs—economic dependence and political interference.

As a foreign company becomes a major business, the MNC’s economic power can make a host country dependent. Workers will depend on the MNC for jobs. Consumers will depend on the company for needed goods and services. The MNC could become a country’s main economic entity.

When this occurs, the MNC could start to influence and even control the country’s politics. The company may require certain tax laws or regulations that only benefit the powerful MNC. The regulation and control of global companies is likely to be an issue in years to come.

**CheckPoint**

What are some other names for multinational companies?

**CheckPoint**

What are two concerns host countries have about multinational companies?

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**GLOBAL BUSINESS SPOTLIGHT**

**SWOT ANALYSIS**

Before a company introduces a new product or goes into another country, managers may conduct a SWOT analysis to determine the strengths, weaknesses, opportunities, and threats of the situation.

- **Strengths** involve company advantages not possessed by competitors, such as new technology or a well-known brand.
- **Weaknesses** are internal concerns of the organization, and may include limited production capacity.
- **Opportunities** result from social and economic trends, such as an aging population or lower interest rates.
- **Threats** are external limitations based on government regulations and actions by competitors.

A SWOT analysis can be used in a variety of international business situations.

**Think Critically**

1. Describe various international business situations in which a SWOT may be used.
2. Select an international business situation. Prepare a SWOT analysis.
A country’s ability to ship goods to customers around the world is vital for international business success. However, 44 nations are landlocked, meaning they do not have a coastline on the ocean or a major sea.

Because of their location, landlocked countries need to transport goods by land through another country to gain access to a seaport. The time and expense involved in moving raw materials, parts, and finished goods have economic consequences. The economic impact varies among countries.

Although Austria and Switzerland are landlocked, they are among the world’s wealthiest nations. Both countries have per capita GDP near $40,000, considerably higher than the world average of $10,500. On the other end of the spectrum, landlocked Afghanistan and Zimbabwe are two of the poorest countries with per capita GDPs of $800 and $200 respectively.

Thirty-one landlocked countries are developing economies, with a poor infrastructure, weak productive capacities, and limited access to world markets. In 2003, the United Nations held a conference in Almaty, Kazakhstan to address some of the issues landlocked developing countries face. The resulting action plan focuses on improving access to seaports, increasing safety and efficiency of transportation systems, and reducing shipping costs of exports and delivery costs of imports.

**Think Critically**

1. How does being landlocked affect a developing country’s business potential and economic development?
2. Use library and Internet resources to learn more about a landlocked developing country. Prepare a short summary of your findings including ideas for economic development.

### Landlocked Countries

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Figure 5-4 Forty-four countries are landlocked. The 31 countries shown in bold are considered landlocked developing countries.

124 Structures of International Business Organizations
Assessment

REVIEW GLOBAL BUSINESS TERMS
Define the following term.
1. multinational company or corporation (MNC)

REVIEW GLOBAL BUSINESS CONCEPTS
2. What is the relationship between a home country and a host country?
3. What kinds of competitive advantages can a multinational company have?

SOLVE GLOBAL BUSINESS PROBLEMS
For each of the following situations, decide whether the situation reflects a characteristic of a multinational company.
4. A product is designed to meet the strictest consumer protection laws so that it will be marketable in any country.
5. Advertising themes are the same in all countries, but the language is changed.
6. A company hires host country citizens as managers as often as possible.
7. Each country is considered a separate market, and a product is formulated to be sold in a single country.
8. Products are shipped to other countries only by mail.

THINK CRITICALLY
9. Is it likely that a well-managed multinational company could be successful in every country in the world? Explain.
10. Describe ways a global company could provide social and economic benefits to a host country.

MAKE ACADEMIC CONNECTIONS
11. MATHEMATICS Go to the web site of a multinational company. Determine the percentages of the company's sales for different regions of the world, such as Africa, the Middle East, and Asia.
12. CULTURAL STUDIES Talk to a person who has worked or lived in another country. Ask how cultural differences can benefit and create problems within a multinational company.
13. HISTORY Locate information about the history of a multinational company including where and when it was started. In addition, find out when the company expanded to become a multinational company. Create a time line showing at least five significant dates in the company's history.
Low-Risk Methods for Getting Involved in International Business

Companies use nine main ways to get involved in international business, as shown in Figure 5-5. As you move up the steps, the firm has more control over its foreign business activities as well as more risk. For example, indirect exporting has less risk.
associated with it than a joint venture. However, a company has more direct control over its business dealings with a joint venture than with indirect exporting.

**INDIRECT EXPORTING**

At first, a business organization may get involved with international business by finding a demand for its service or product without really trying. **Indirect exporting** occurs when a company sells its products in a foreign market without any special activity for that purpose.

During a sales meeting or another business encounter, for example, someone in a foreign company may show interest in your product. A buyer who represents several companies may tell a small manufacturing company about the need for its product in Southeast Asia. Because the company was not looking for foreign business opportunities, indirect exporting is sometimes called **casual** or **accidental** exporting. Indirect exporting makes use of agents and brokers who bring together sellers and buyers of products in different countries. This method of international business has minimum costs and risks. Many companies have started their international business activities using this method.

**DIRECT EXPORTING**

**Direct exporting** occurs when a company actively seeks and conducts exporting. Direct exporting might be the first international business activity for a company or it may be a natural outgrowth of indirect exporting. When sales increase and a company decides to get more involved in international business, the organization probably will create its own exporting department. The company may still use agents or brokers from outside of the organization. However, a manager within the company plans, implements, and controls the exporting activities.

While direct exporting involves higher costs than indirect exporting, the company has more control over its foreign business activities. The risk is still relatively low because the firm does not have an extensive investment in other countries. The exporting process is discussed in greater detail in the next chapter.

**MANAGEMENT CONTRACTING**

Knowledge is a powerful tool in business. An ability to find business opportunities, coordinate resources, solve problems, and make productive decisions is a skill that will be in demand throughout your life. It is also a skill that can be exported.

A **management contract** is an agreement under which a company sells only its management skills. This has a fairly low risk for a company because the agreement spells out the relationship between the parties and provides safeguards to protect against risks.

An example of management contracting may involve a European-based hotel management company agreeing to operate a hotel chain in Southeast Asia. In exchange, the owners of the hotel chain would pay the management company for its services.

A variation of this type of agreement is **contract manufacturing**. This arrangement involves a company in one country producing an item for a company located in another country. This relationship allows a business to enter a foreign market without investing in production facilities. Contract manufacturing is usually considered as having low to moderate risk.
LICENSING

To produce items in other countries without being actively involved, a company can allow a foreign company to use a procedure it owns. Licensing is selling the right to use some intangible property (production process, trademark, or brand name) for a fee or royalty. The Gerber Company started selling its baby food products in Japan using licensing. The use of television and movie characters or sports team emblems on hats, shirts, jackets, notebooks, luggage, and other products is also the result of licensing agreements.

A licensing agreement provides a fee or royalty to the company granting the license. This payment is in return for the right to use the process, brand name, or trademark. The Disney Company, for example, receives a royalty from the amusement park it licensed in Japan. Licensing has a low monetary investment, so the potential financial return is frequently low. However, the risk for the company is also low.

FRANCHISING

Another method commonly used to expand into other countries is the franchise, which is the right to use a company name or business process in a specific way. Organizations contract with people in other countries to set up a business that must meet certain requirements, which often includes a look and operations similar to the parent company. The company obtaining the franchise will usually adapt various business elements. Marketing elements such as the taste of food products, packaging, and advertising messages must meet cultural sensitivities and meet legal requirements.

Franchising and licensing are similar. Both involve a royalty payment for the right to use a process or famous company name. Licensing, however, usually involves a manufacturing process, while franchising involves selling a product or service.

Franchise agreements are popular with fast-food companies. McDonald’s, Burger King, Wendy’s, KFC, Domino’s Pizza, and Pizza Hut all have used franchising to expand into foreign markets.

**CheckPoint**

What are five relatively low-risk methods of getting involved in international business?

**A Question of Ethics**

**STEALING SECRETS BY FOREIGN PARTNERS**

Working relationships between foreign enterprises and companies in host countries can be strained by the loss of technology secrets. In a closed society (one with a centralized government), outside companies may be required to provide their local partners with computer hardware, software, and knowledge to operate these systems. However, often the technology is then borrowed and duplicated by the local company to start a new business.

**Think Critically**

According to the guidelines for ethical analysis, how will the actions of the government and companies in the host country affect the business and economy of the other partner?
Higher-Risk Methods for Getting Involved in International Business

It is often true that business activities with higher risks return greater profits. The profit potential is used to justify taking those risks.

JOINT VENTURES

A partnership can provide benefits to all owners. One type of international partnership is the joint venture, an agreement between two or more companies from different countries to share a business project. A joint venture is illustrated in Figure 5-6.

The main benefits of a joint venture are sharing raw materials, shipping facilities, management activities, production facilities, distribution channels, and other business resources. Some drawbacks are sharing profits and limited control.

Joint venture arrangements can share costs, risks, and profits in any combination. One company may have only 10 percent ownership and the other 90 percent. It depends on the joint venture agreement.

Joint ventures, often called strategic partnerships, can be used for any type of business activity. This arrangement is especially popular for manufacturing. These joint ventures may include home appliances manufactured in Korea based on technology developed in Germany, and sold as a store brand name in the United States. Or, an agreement between two food-processing companies in different countries to create a new product line sold in many other nations.

TURNKEY PROJECT

A turnkey project allows a company to enter a foreign market by creating a ready-to-use business facility. For example, a European-based energy company may create a power plant in Africa. Once the installation is ready to generate power, a local company takes over. In the turnkey process, a project manager is in charge of construction activities, which may include training local workers to operate the facility.

The turnkey process may be used to export technology or a production plant that will be used by a company buying the project. The facility

A Joint Venture in Action

Figure 5-6 A joint venture allows companies in different countries to cooperate for a common business purpose.
CEREAL PARTNERS WORLDWIDE

Cheerios with Nestlé on the box instead of General Mills would seem strange to most consumers in the United States. However, in Latin America, Europe, the Middle East, and other areas of the world, this is a common sight. Cereal Partners Worldwide (CPW) is a joint venture between these two companies.

General Mills brought popular brands, such as Trix and Golden Grahams, into the partnership. Nestlé, well known throughout the world, has an extensive distribution system and strong brand presence in grocery stores and supermarkets.

Created in 1990, Cereal Partners Worldwide is now the second-largest cereal company outside of North America. CPW operates in more than 130 countries. In addition to the well-known General Mills brands, CPW has created some cereal products for specific markets. The joint venture company has sold Zucosos in Chile, Chocapic in Spain, and Snow Flakes in the Czech Republic. CPW makes it possible to buy Trix or Cheerios at a rural store in Chile as well as in a supermarket in Israel.

Think Critically
1. What factors influenced the creation of CPW?
2. What are some examples of products you use each day that might need to be adapted to other cultures?
3. Go to the web site of General Mills to obtain current information about the activities of CPW and other joint ventures of the company.

FOREIGN DIRECT INVESTMENT

As a company gets more involved in international business, it may make a direct investment in a foreign country. A foreign direct investment (FDI) occurs when a company buys land or other resources in another country. Real estate and existing companies are common purchases under this method. Many British, Japanese, and German companies own office buildings, hotels, and shopping malls in the United States.

Another type of FDI is the wholly-owned subsidiary, which is an independent company owned by a parent company. Multinational companies frequently have wholly-owned subsidiaries in various countries that are the result of foreign direct investment. In the past, foreign companies have owned U.S.-based businesses such as Burger King, Pillsbury, and Green Giant.

To prevent economic control of one country by another, a nation may restrict how much of its land or factories may be sold to foreign owners. For example, some countries allow a foreign investor to own only 49 percent of companies in those countries.

✓ CheckPoint

How does risk of doing business internationally differ for exporting and direct foreign investment?
5-3 Assessment

REVIEW GLOBAL BUSINESS TERMS
Define each of the following terms.

1. indirect exporting
2. direct exporting
3. management contract
4. licensing
5. franchise
6. joint venture
7. foreign direct investment (FDI)
8. wholly-owned subsidiary

REVIEW GLOBAL BUSINESS CONCEPTS

9. Why is management contracting a safe method for getting involved in international business?
10. What is the difference between licensing and franchising?

SOLVE GLOBAL BUSINESS PROBLEMS
For each of the following situations, indicate what method the company is using for its global business activities.

11. A Vietnamese company shares production costs and profits of a chemical manufacturing enterprise with an Israeli company.
12. A British toy company allows a Japanese company to create clothing and school supplies with one of the British company’s doll characters on the products.
13. A company in Egypt has purchased 51 percent of the stock of a company in Peru.
14. A small food-packaging firm cannot afford to sell in other countries, so it asks an export agent to obtain orders for the company.

THINK CRITICALLY

15. What factors would affect how the parties in a joint venture divide future profits?
16. In what ways does a company making a direct foreign investment in a new factory have more control than a company engaged in direct exporting?

MAKE ACADEMIC CONNECTIONS

17. CULTURAL STUDIES Visit a toy store, sporting goods store, or another kind of store that sells merchandise printed with logos or images belonging to other companies. List the items you see and any information on the tags or packaging that indicates a licensing agreement.

18. TECHNOLOGY Do an Internet search for “joint venture.” Select a site that describes a joint venture involving two countries. Write a report on the companies and countries involved, the products, and other major details about the joint venture.
CHAPTER SUMMARY

5-1 FORMS OF BUSINESS OWNERSHIP

A The advantages of a sole proprietorship are ease of starting, individual business freedom, owner gets all profits, and pride of ownership. The disadvantages are limited funds, potential long hours, unlimited liability, and limited life of the business.

B The benefits of a partnership are ease of creation, additional sources of funds, and availability of different talents. The possible drawbacks are partners are each liable, profits are shared, potential for disagreement, and business can dissolve suddenly.

C Advantages of a corporation are more sources of funds, limited liability, management availability, and unlimited life. Disadvantages include difficult creation process, owners’ limited control, and double taxation.

D Other forms of business ownership include municipal corporations, nonprofit corporations, and cooperatives.

5-2 OPERATIONS OF GLOBAL BUSINESSES

A Multinational companies take advantage of business opportunities in several geographic areas by adapting to cultural and economic influences in different societies. Multinational companies with a global perspective consider the entire world as their potential market. They look for similarities among markets in order to offer a standardized product whenever possible.

B The main concerns related to MNCs are economic dependence and political interference.

5-3 STARTING GLOBAL BUSINESS ACTIVITIES

A Low-risk methods used for getting involved in international business include indirect exporting, direct exporting, management contracting, licensing, and franchising.

B Higher-risk methods used for getting involved in international business are joint ventures, turnkey operations, foreign direct investment, and wholly-owned subsidiaries.

GLOBAL REFOCUS

Read the case at the beginning of this chapter, and answer the following questions.

1. What are the benefits and potential problems of a company being involved in many types of products and services?

2. Describe a joint venture that might be appropriate for Mitsubishi in the future.
REVIEW GLOBAL BUSINESS TERMS
Match the terms listed with the definitions. Some terms may not be used.

1. A business owned by its members and operated for their benefit.
2. The difference between money taken in and expenses.
3. The owners of a corporation.
4. Selling the right to use some intangible property for a fee or royalty.
5. The situation in which a business owner is only responsible for the debts of the business up to the amount invested.
6. The document granted by government allowing a company to organize as a corporation.
7. The selling of a company’s products in a foreign market without any special activity for that purpose.
8. An independent foreign company owned by a parent company.
9. The situation in which a business owner’s personal assets can be used to pay any debts of the business.
10. A business that operates as a legal entity separate from any of the owners.
11. An agreement under which a company sells only its management skills.
12. A share of corporate earnings paid to stockholders.
13. The right to use a company name or business process in a specific way.
14. An agreement between two or more companies from different countries to share a business project.
15. A company actively seeking and conducting exporting.
16. The purchase of land or other resources in a foreign country.
17. An organization that conducts business in several countries.

MAKE GLOBAL BUSINESS DECISIONS
18. List reasons why most companies in the world start out and remain sole proprietorships. How does being a sole proprietorship benefit or limit a company’s ability to become involved in international business?
19. Describe a situation in which a partnership or sole proprietorship could raise capital to expand business activities more easily than a corporation.
20. Why do you think the government makes the creation of a corporation more difficult than the creation of other forms of business ownership?

21. Name goods and services that could be the basis for creating a consumer cooperative.

22. What are some ways a multinational company can have a competitive advantage over local businesses?

23. What types of restrictions might a foreign government put on a multinational corporation doing business in its country?

24. Describe actions a manager might take when (a) planning, (b) implementing, and (c) controlling a company’s exporting activities.

25. What are some services companies could sell to other countries using management contracts?

26. How would a business that sells licenses and franchises control the image of the company name?

27. What are some concerns people might have about a company making many foreign investments in their country?

MAKE ACADEMIC CONNECTIONS

28. GEOGRAPHY Locate examples of multinational companies in different countries. Create a map showing where the companies are based and the other nations in which the companies operate.

29. COMMUNICATIONS Interview a local business owner about the form of business organization used by his or her company. Ask the owner how the company got started, and ask for suggestions he or she could give to others who want to start a business.

30. HISTORY Conduct library research about a major foreign company and its home country. Obtain information on how the country’s history may have influenced the development of the company.

31. CULTURAL STUDIES Describe how a multinational company might need to adapt its products to meet the traditions, customs, and cultural norms of various societies.

32. SCIENCE Collect advertisements, articles, and other information about multinational companies. Describe what natural resources and production processes would be necessary to create the products of these companies.

33. MATHEMATICS Conduct an opinion survey of students and others to determine their attitudes toward products and companies from other countries. Survey questions could include: (a) Which countries make the best products? (b) Do consumers benefit from being able to buy products from other countries? (c) Should our government restrict products from other countries? (d) Should foreign governments restrict U.S. products from entering their markets? Prepare a chart showing your results.

34. CAREER PLANNING Talk to someone who owns a business. Obtain information about the types of jobs the person had before becoming an entrepreneur.
CREATING AN INTERNATIONAL BUSINESS PLAN

Planning and Organizing Global Business Operations

Select a company that you might consider as a strategic partner for business. Make use of previously collected materials, or do additional research to obtain the information you need.

1. Describe how your company might have started as a sole proprietorship or a partnership. Explain the factors that may have influenced the owners’ decision to select this form of business organization.

2. If the company becomes a multinational corporation, what benefits and problems could result?

3. Describe appropriate international business opportunities for the company. What products and services would be most appropriate for different geographic regions? What economic, cultural, legal, or political influences must the company consider?

4. Which of the methods described in the final section of this chapter (see Figure 5-5) would be appropriate for the company to use for international business activities?

5. Explain the possible use of two or more of these methods for getting involved in international business.

6. Prepare a written report or present a short oral report (two or three minutes) that answers these questions. Or if instructed by your teacher, create a poster, display, or computer presentation with visuals and information that answer these questions.