



Dynamics of International Business

ASIA-PACIFIC BUSINESS CASES

Edited by
PREM RAMBURUTH
CHRISTINA STRINGER
MANUEL SERAPIO

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Dynamics of International Business

ASIA-PACIFIC BUSINESS CASES

Dynamics of International Business: Asia-Pacific Business Cases brings the challenges and complexities of the contemporary international business environment into the classroom. These authentic case studies, based on recent research and events, enable students to engage with the economic, social, political and intercultural factors that impact on international business. They also enable students to explore and understand how these factors are addressed in the real world.

Designed to facilitate a problem-based learning approach to the study of international business and management, the cases in this book:

- draw on a diverse range of businesses and industries – from seafood to video games to renewable energy
- illustrate fundamental themes and concerns within global business, including ethics, sustainability, emerging markets, and cultural and legal differences
- span many countries across the Asia-Pacific region, reflecting the growing importance of trade and business ties within this area
- include discussion questions that encourage students to apply international business theory and develop critical thinking skills in the context of realistic scenarios
- include references and suggestions for further reading.

Extra resources for instructors, including case synopses, learning objectives and guided answers to the discussion questions, are available at www.cambridge.edu.au/academic/internationalbusiness.

Prem Ramburuth is Professor of International Business and President of the Academic Board at the University of New South Wales, Australia.

Christina Stringer is Senior Lecturer in the Department of Management and International Business at the University of Auckland, New Zealand.

Manuel Serapio is Associate Professor of International Business at the University of Colorado Denver, United States.

Praise for *Dynamics of International Business*

'It is not often that a case collection provides the depth, scope and clarity that make it a useful companion for both teaching and research. This collection does just that, providing an interdisciplinary lens with which to observe, reflect on, and, most importantly, understand complex business problems, in particular in the Asia Pacific region.'

Oded Shenkar
Ford Motor Company Chair in Global Business Management Fisher College of Business,
The Ohio State University

'A case book we've been waiting for! Its objective is to encourage and enable faculty and teaching staff to infuse IB content into business courses at all levels. . . . It fills the gap of lacking case studies from outside the US or Europe. It's a must for any IB teacher who wants to gear-up his/her teaching towards the Century of the Asia Pacific.'

Klaus Macharzina
Emeritus Professor and AIB Fellow, Hohenheim University

'This is a very informative and well constructed collection of case studies . . . Particularly refreshing and insightful are unique conditions, whether institutional and regulatory or sociocultural and economic, facing multinationals or domestic firms competing in the region, making it a very useful book for instructors and students interested in business landscapes and strategies unfolding there.'

Yadong Luo,
Emery Findlay Distinguished Chair and Professor of International Business,
University of Miami

'Congratulations to PACIBER for its major accomplishment of this Case Book . . . This Case Book is further evidence of the role of PACIBER in advancing International Business Education in this region. With more than 20 cases from academics across the Asia-Pacific region, I believe this Case Book will provide valuable learning experiences for readers, both academics and practitioners.'

Emeritus Professor Khunying Suchada Kiranandana
Chairperson, Chulalongkorn University Council

' . . . a thoughtful and valuable collection of cases written by international business professionals who have vast experiences in countries across the Asia Pacific Region. Through these cases, highly relevant scenarios in the international business environment can be brought into an educational setting to engage participants on decidedly relevant Asia Pacific topics and issues.'

Dr. Stefanie Lenway
Eli and Edythe L. Broad Dean, Eli Broad College of Business, Michigan State University

'This is an excellent set of short cases useful in any business school class that prepares folks to understand, and work in, any of the dynamic and rapidly growing Asian economies.'

Raj Aggarwal
Sullivan Professor of International Business, University of Akron

' . . . an impressive collection of cases and teaching notes. The true extent of globalization in the world economy is not often well represented, but in this one volume, you will find true diversity in topic, country, and industry . . . With the diversity of cases, and the increased need for students to understand global economies, this collection is a great resource for faculty at institutions all around the world.'

Kenneth G. Brown
Professor, University of Iowa, USA

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**PREM RAMBURUTH,
CHRISTINA STRINGER
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MANUEL SERAPIO**

*Cases from the Pacific Asian Consortium for International
Business Education and Research (PACIBER)*



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*This book is dedicated to
Dr NH Paul Chung, Professor
Founder of the Pacific Asian Management Institute
His great vision inspired the creation of PACIBER.*

■ Foreword

Globalisation of capital markets, developments in information technology and advances in communications and transportation are transforming business practices around the world. Successfully engaging in business in the international arena requires knowledge of the wide variety of cultures, national backgrounds, business practices and languages spoken throughout the area. Leading business schools in the Asia-Pacific region are becoming essential players in providing knowledge and skills for current and prospective business professionals.

The Pacific Asian Consortium for International Business Education and Research (PACIBER) was created in 1988 as a consortium of universities dedicated to establishing linkages to promote international business education, research and exchanges of information, faculty and students. PACIBER member schools benefit by increased access to and networking with the leading business schools in North America, Asia and Oceania. Collaborative activities between PACIBER member schools add value to member universities through a range of activities. These include joint research projects, recruitment and exchange of students, faculty exchange and networking, placement of students in member school programs, joint curriculum development, access to the latest developments in business education, increased research funding opportunities from private and government agencies, and invaluable networks with leading business schools.

With its secretariat at the crossroads of the Pacific, in the University of Hawai'i's Pacific Asian Management Institute, PACIBER strives to widen the scope of cooperation, facilitate communication and expand consciousness about the Asia-Pacific region among its members, and in the business community at large. PACIBER representatives gather every year in the location of a member school to receive updates on current international business issues, discuss curriculum development and present new initiatives for the consortium. Research panels and keynote speeches are also part of the program. These annual meetings of PACIBER provide a forum for the exchange of ideas, where members can network and learn from one another. Through faculty exchanges and other mutually beneficial alliances, member universities can raise the level of their business education programs to world-class standards.

This casebook is a product of the type of integrated research and curriculum development projects in which PACIBER members are engaged. The goal of the book is to help faculty – particularly those in the Asia-Pacific region – integrate current and relevant Asia-Pacific business content into their curriculum. It is also designed to increase active learning, as well as develop communication and cross-cultural skills in all business students – skills that are known to be extremely important to employers.

The book represents a collaborative effort by over 30 authors and editors from throughout the Asia-Pacific region. It would not have been possible without the contributions of cases by dozens of scholars. We acknowledge their diligent work in preparing and revising their cases and providing teaching materials to complement the cases.

The book benefited substantially from the capable management and commitment of our editorial trio, led by Professor Prem Ramburuth and her assistant, Irene Ellul, at the University of New South Wales, who organised and coordinated the process with the publishing company. Our other co-editors, Dr Christina Stringer of the University of Auckland and Dr Manuel Serapio of the University of Colorado Denver, each managed cases in their areas of expertise, and provided ongoing input on all aspects of the book. This team of three editors worked diligently over a two-year period to solicit cases, manage the review and revision process, and organise the content into a usable and user-friendly volume. The diversity, range and quality of the cases is testimony to their hard work and talent.

We also acknowledge the assistance of André Everett, Grant Kim, Rochelle Macarthur, Tamira Reed, Cindy Qin, Nisarg Desai and Nikki Serapio, and the tremendous support of David Jackson, the Commissioning Editor-Academic of Cambridge University Press.

We are pleased to present this volume at the celebration of PACIBER's 25th anniversary in 2013. We encourage scholars who are interested in our programs to consult our website at <<http://www.paciber.org>>.

*Shirley J Daniel, Director
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Secretariat of PACIBER
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■ Preface

It is widely acknowledged that actively engaging students is vital to the learning process. Unfortunately, our education systems have all too often fostered one-way communication and information flows from teacher to student. As a result, it is sometimes difficult to get students to participate actively in class discussions, and this is probably more true in the Asia-Pacific region than in the United States and Europe. However, most of us are familiar with the Chinese proverb: 'Tell me and I'll forget; show me and I may remember; involve me and I'll understand.' This book is designed to help teachers of international business implement this sage advice in their classrooms through the use of cases.

While there are a number of experiential learning techniques that can be used in higher education, case-based teaching is one of the most efficient and flexible methods for actively involving and encouraging students to make the transition from classroom to practice. Cases provide an opportunity for students to apply technical knowledge and theories derived from lectures and textbooks to real-world situations. Effective integration of cases as part of a course can allow students to cultivate an array of skills that will be useful in their careers. Specifically, Edge and Coleman (1986) list nine action skills that are reinforced through the use of cases – skills that enable a person to:

1. think clearly in complex ambiguous situations
2. devise reasonable, consistent, creative action plans
3. apply quantitative tools
4. recognise the significance of information
5. determine vital missing information
6. communicate orally in groups
7. write clear, forceful, convincing reports
8. guide students' careers
9. apply personal values to organisational decisions.

The use of cases as part of course pedagogy is particularly useful in teaching international business, where global skills development is essential, exposure to cross-border understanding and cultural contexts is required, and 'primary experience' in global contexts on a large and frequent scale is not feasible (Ramburuth & Daniel 2011).

Unfortunately, teachers are often challenged when it comes to finding appropriate cases from affordable sources that address international topics and situations (Coulthard & Dooley 2010; Ramburuth & Welch 2005). In a study that examined syllabi for core strategy courses at 51 leading business schools, Ghemawat (2007) found that 33 per cent of courses he reviewed with colleagues did not have a single case study that took place outside the United States, and most did not teach global strategy concepts or tools. In addition, as the required business school curriculum content topics continue to increase, many faculty members find it difficult to squeeze more assignments and topics into an already extensive class syllabus. In many core courses, it is not feasible to devote a whole class period to a single case discussion.

However, a shorter case can be integrated more easily, and provide a valuable opportunity to engage students in the theories and topics they are already studying.

The goal of this casebook is to encourage and enable more faculty and teaching staff to infuse international business content and active learning into business courses at all levels. The book is designed specifically to provide up-to-date, realistic, concise and easy-to-integrate international business case situations from the Asia-Pacific region. Each case is designed to include a concise scenario and discussion questions. The questions provide options for stimulating discussion at undergraduate and graduate levels, are formulated for the involvement of individual and group work, and include extension questions aimed at facilitating advanced levels of learning.

Frequently, an obstacle to finding and integrating the ‘right’ case occurs when no teaching notes are available to help the instructor efficiently understand the case concepts, demonstrate how they might be integrated into a class or suggest potential answers to the questions. This casebook addresses these issues and provides insightful teaching notes and potential answers to the questions set, offers alternate questions to be tailored to class needs and suggests references for further reading. Instructors and students who are novices at using the case method of instruction will be able to experience a more lively and meaningful class discussion.

The cases included will provide a valuable complement to any course in which the instructor would like to include an international business component, particularly with an Asia-Pacific focus. Example courses and topics could include:

- Introduction to International Business
- Global Business Environments
- Business Strategy
- International Entrepreneurship
- Cross-cultural Management
- Organisation Design and Behaviour
- Globalisation and Society.

To facilitate the integration of cases into existing international business and management courses and topics, the cases are organised into four broad categories:

- **Part I:** The Environment of International Business, including issues relating to political, legal, economic, cultural, ethical and sustainable environments
- **Part II:** Strategy and Entrepreneurship, including issues relating to globalisation, entry modes, strategic alliances, leadership, innovation, and opportunities and risks in international business
- **Part III:** Managing People in International Business, including issues relating to international management, human resources, cross-cultural management, expatriation, and training and development for global contexts
- **Part IV:** Operating in International Markets, including issues relating to sourcing, global competition, market share, foreign direct investments, exports and imports, and other issues encountered in engaging in business in foreign environments.

The cases are ‘real-life’ examples written by academic and practitioners in international business. They aim to provide authentic learning experiences covering the many topics listed.

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Part

The Environment of International Business

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2 Walking the blurry line in China: Negotiating deals and staying out of jail

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3 The feasibility of solar energy in el Junco

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4 Colombian coffee: Issues of sustainability?

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5 Preserving paradise: Shell's sustainable development programs in the Philippines

Raymund B Habaradas

1

AWB and the Iraqi Oil-for-Food scandal: Just a cost of doing business?

Peter K Ross

In 2005, the Australian government initiated an inquiry into ‘certain Australian companies in relation to the UN Oil-for-Food program’, subsequently known as the Cole Inquiry. This inquiry investigated what was to become Australia’s biggest international corruption scandal – the A\$300 million paid in kickbacks to the Saddam Hussein-led Iraqi government by the Australian Wheat Board (AWB), an exporting monopoly (Holmes 2006). Even more damning was the fact that this money had been paid to the same dictatorial regime against which Australian soldiers had fought two wars. The seeds of this corruption went back to the introduction of a UN-administered Oil-for-Food Program (OFFP) that was negotiated with the Iraqi government following the First Gulf War.

■ First Gulf War 1990–91

In 1990, under a government led by Saddam Hussein, Iraq invaded Kuwait. Following an international outcry, a United Nations-endorsed, United States-led coalition force subsequently liberated Kuwait in 1991, in a military action named ‘Operation Desert Storm’. The peace terms required Saddam Hussein to open up Iraq to UN weapons inspectors, including the inspections of sites suspected of being linked to the development of ‘weapons of mass destruction’ (WMDs) (UN Security Council Resolution 687) (Fisher 2004, p. 462). The responsibility for finding weapons, including WMDs, was given to the UN Monitoring, Verification, and Inspection Commission (UNMOVIC) and the International Atomic Energy Agency (IAEA).

UNMOVIC and IAEA inspectors had some success in finding and disposing of weapons. This included the destruction of ‘38,500 munitions, 480,000 litres of chemical agents, and 1.8 million litres of precursor chemicals’ (Squassoni 2003, p. 4). But Iraqi officials became increasingly obstructive over time. This included delaying tactics and blocking access to ‘sensitive sites’. Inspectors also complained that interview rooms frequently were bugged by the Iraqi government. Some observers therefore suggested that ‘Iraqi compliance was superficial and oriented to facilitating the process of inspections, rather than on providing cooperation in substantive matters’ (Squassoni 2003, p. ii). By 1998, the Iraqi government had become emboldened by increasing disunity amongst UN Security Council members and evicted all UNMOVIC personnel from the country. Following pressure from the United States and the United Nations, UNMOVIC personnel eventually were allowed back into Iraq in 2002, but there had now been a four-year period with effectively no UN inspections of Iraqi sites.

The period following the First Gulf War was, therefore, typified by a high degree of distrust amongst the parties. Further, many coalition force country governments – particularly the United States – believed that Iraq had not fully complied with UN Security Council Resolution 687, which required it to provide *unrestricted* access to its weapons facilities.

■ The UN Oil-for-Food Program and sanctions

Following the invasion of Kuwait in 1990, the UN Security Council voted for economic sanctions against Iraq (Harris 2007). These sanctions effectively prohibited UN member states from trading with Iraq, and included an embargo on the purchase of Iraqi oil – the country’s predominant export revenue source. The UN Security Council hoped that the sanctions might apply sufficient economic and political pressure on the Iraqi government to persuade it to withdraw its forces from Kuwait. However, sanctions have often proven to be ineffective in changing regime behaviour – US trade sanctions against Cuba, Iran and Burma, for example, have failed to change the nature of the targeted regimes (Griswold & Lukas 1999). In this instance, the UN sanctions failed to induce Saddam Hussein to withdraw his forces from Iraq, resulting in the First Gulf War. Following the war, the UN Security Council renewed and maintained the sanctions because of the Iraqi government’s apparent failure to fully comply with UN Resolution 687. Much of the pressure to maintain this approach came from the US government.

A problem with implementing wide-ranging sanctions is that they are, by their nature, a blunt economic instrument. While sanctions aim to change a regime’s behaviour, the elite within the targeted countries often find ways to get around the sanctions and/or simply skim off a bigger percentage of a shrinking economy. Saddam Hussein, for example, continued to build new palaces and his family maintained a life of relative opulence throughout the sanctions period. Further, ‘the regime remained as brutal and uncompromising in its treatment of political opponents as it was prior to sanctions’ (Boone, Gazdar & Hussain 1997, p. 3).

Saddam Hussein was also prepared to use the economic plight of ordinary Iraqi people to pressure the United Nations to lift its sanctions, and overseas reporters who visited the country routinely were taken on state-organised tours of hospitals and other impoverished institutions. While much of this was a cynical ploy on the part of the Iraqi regime to pressure the United Nations into changing its stance, the fact remained that ordinary Iraqi people continued to suffer. Boone, Gazdar and Hussain (1997, p. iii) advise that real earnings for Iraqis:

fell by around 90 per cent in the first year of the sanctions, and then fell by around 40 per cent more between 1991 and 1996 . . . observations on the type of survival strategies that Iraqis are resorting to confirm this impression that in many ways Iraq is now very much like some of the poorest countries in the world, whereas before the sanctions it could be placed on par with the upper Middle Income countries.

Clearly, the sanctions had created an ethical and political dilemma for UN Security Council members, not to mention a public relations nightmare. In 1995, the *New York Times* published an article entitled ‘Iraq Sanctions Kill Children’ (Crossette 1995). Observers also suggested that the ongoing situation had led to ‘sanctions fatigue’ among UN Security Council members (Squassoni 2003).

■ The Oil-for-Food Program

A UN strategy to help address this problem was the creation of the OFFP, whereby limited amounts of Iraqi oil could be exported for defined essential goods such as foodstuffs and medicines. The United Nations passed an initial resolution to initiate such a program as early as 1992, but the Iraqi government rejected the initial UN terms and a negotiated agreement was not finalised until late 1996 (Harris 2007). In finalising this agreement, the United Nations made a significant concession by agreeing that the Iraqi government, *not* the United Nations, would make the final decision on who could buy its oil and which firms could supply the humanitarian goods (Holmes 2006). This allowed Saddam Hussein to exert a far greater influence over the OFFP process than the United Nations had intended initially, further increasing the potential for corruption of the program. In line with this agreement, the Iraqi government refused to approve any OFFP purchase of wheat from US farmers because of the US government's continued support for the sanctions (Mayman 2003). Given that the United States is a major wheat exporter, the Iraqi government's stance gave other competitor wheat-exporting nations, such as Australia, a major advantage in terms of securing wheat sales to Iraq.

The OFFP agreement stipulated that all monies received under the program were to be paid into a UN escrow account, which in turn would monitor the receipt and disbursement of all the funds. Between December 1996 and 2003, Iraqi oil worth US\$64 billion was sold under the auspices of the OFFP, with US\$34 billion spent on humanitarian goods and US\$18 billion spent on reparations. (Volcker, Goldstone & Pieth 2005a; Harris 2007).

In 2003, continuing tensions between the United States and Iraq boiled over into the Second Gulf War. Debate over the causes and responsibility for this war are wide-ranging and beyond the scope of this case study, but in 2003 the United States led an invasion force dubbed the 'Coalition of the Willing' into Iraq – Australia was a member of this coalition invasion force. Disagreements among UN Security Council members meant that, in contrast to the First Gulf War, this coalition force was not backed by the UN Security Council.

Rumours concerning the corruption of the OFFP had been circulating for some years, but it was not until the defeat of Saddam Hussein's forces in this Second Gulf War that significant amounts of evidence supporting these rumours emerged from Iraqi government files and archives. Following the discovery of this evidence, the then UN Secretary General, Kofi Annan, initiated an inquiry into the administration and workings of the OFFP, chaired by Paul Volcker. The Volcker Inquiry discovered that, while the OFFP had improved the lives of ordinary Iraqis, the process had also systemically been corrupted. *Time Magazine* put this more bluntly, calling the OFFP a 'massive scam' (Sullivan 2005, p. 112). The inquiry estimated that more than 2200 foreign firms had paid bribes and/or kickbacks to the Iraqi government (Harris 2007), with an estimated value of at least US\$1.8 billion. The inquiry also found that the Iraqi government had been able to smuggle a further US\$11 billion worth of oil out of the

country, again in direct contravention of UN sanctions. Of all the firms linked to illicit kickbacks and the OFFP, the company that was found to have paid the highest amount in corrupt payments to the Iraqi government was the Australian firm AWB. The Volcker inquiry estimated that, between 1999 and 2003, the AWB paid US\$221 million in illicit payments – approximately A\$300 million at the then exchange rate – which totalled an incredible 14 per cent of all the illicit funds paid to Saddam Hussein’s regime under the OFFP (Harris 2007).

■ AWB

AWB’s origins were in the government-owned Australian Wheat Board before it was privatised in 1999. Importantly, AWB was the beneficiary of the Australian government’s ‘single-desk’ policy, which gave AWB the power to veto any other firm’s application for a licence to export wheat from Australia (Aulich & Botterill 2007). This gave AWB a virtual monopoly on all wheat exports from the country. The logic behind the single-desk policy was to improve AWB’s bargaining power. Australia is one of the world’s biggest wheat exporters, and selling all its wheat exports through one source gave AWB – and, by extension, Australian wheat farmers – more power to negotiate deals in a competitive global market. The single-desk policy had broad general support from Australian wheat farmers and the National Party, a rural based political party that was a junior member of the ruling conservative Liberal/National Coalition that governed Australia from 1996 to 2007.

AWB gained a reputation for aggressively courting markets, which was in part related to the power it gained from its monopoly status. Aulich and Botterill (2007) further advise that, following privatisation, government regulatory oversight of AWB’s export activities was relatively weak. Australia had sold wheat to Iraq for more than 50 years, and Iraq had developed into one of AWB’s biggest export markets. Australian hard wheat was well suited to making Iraqi bread, while Iraq itself did not have the arable land available to grow its own requirements (Holmes 2006). The AWB therefore actively tendered for wheat sales to Iraq under the OFFP. Further, as outlined above, under the OFFP terms agreed upon by the United Nations in 1996, the Iraqi government was able to prohibit wheat imports from the United States, thereby eliminating a major trade competitor. In 2002, the year before the OFFP finished, Australia exported A\$800 million worth of wheat to Iraq and by 2005 the Iraqi wheat market represented around 10 per cent of AWB’s entire wheat exports for that year (Tucker 2006). Clearly, Iraq had developed into a lucrative market.

■ Kickbacks: Wheat exports to Iraq

AWB’s success in Iraq had raised suspicions. Canadian wheat farming representatives, for instance, had complained to UN personnel about rumours of kickbacks being paid by the Australian firm to the Iraqi government (Volcker, Goldstone & Pieth 2005b). However, the United Nations did not initiate any large-scale investigation. Australia