Contents

Preface 29
About the Authors 39

PART ONE BACKGROUND FOR INTERNATIONAL BUSINESS 44

1 Globalization and International Business 44

CASE: The Global Playground 45

Introduction 48

What is International Business? 49

The Forces Driving Globalization 50

Factors in Increased Globalization 51

What's Wrong with Globalization? 56

Threats to National Sovereignty 56

Economic Growth and Environmental Stress 57

Growing Income Inequality 57

Point Counterpoint Is Offshoring Good Strategy? 58

Why Companies Engage in International Business 60

Expanding Sales 60

Acquiring Resources 60

Minimizing Risk 60

Modes of Operations in International Business 61

Merchandise Exports and Imports 62

Service Exports and Imports 62

Investments 63

Types of International Organizations 63

Why International Business Differs from Domestic Business 64

Physical and Social Factors 65

The Competitive Environment 67

Looking to the Future: Three Ways of Looking at Globalization 68

CASE: Carnival Cruise Lines: Exploiting a Sea of Global Opportunity 69

Summary 74

Key Terms 75

Endnotes 75

An Atlas 78

Map Index 86
Political Risk 154

Point Counterpoint Should Political Risk Management Be an Active Strategy? 156

The Legal Environment 157
Legal Systems 158
Types of Legal Systems 158
The Diffusion of Legal Systems 159
Trends in Legal Systems 160
Understanding Bases of Rule 161
Implications for Managers 162

Legal Issues in International Business 164
Operational Concerns 164
Strategic Concerns 166
Intellectual Property Rights 168

CASE: Crime That Pays (and Pretty Well, Too) 172
Summary 177
Key Terms 178
Endnotes 178

4 The Economic Environments Facing Businesses 180

CASE: Economic Conundrums and the Comeback of Emerging Economies 181
Introduction 184
International Economic Analysis 186

Elements of the Economic Environment 187
Gross National Income 187

Features of an Economy 196
Inflation 196
Unemployment 197
Debt 198
Income Distribution 199
Poverty 200
Labor Costs 201
Productivity 202
The Balance of Payments 202

Point Counterpoint Is a Trade Deficit an Advantage? 204

Integrating Economic Analysis 206
Types of Economic Systems 206
Economic Freedom and Market Transitions 209
Making the Transition to a Market Economy 211

Looking to the Future: Is There a Move to Push Back Economic Freedom? 216

CASE: Meet the BRICs 218
Summary 222
Key Terms 223
Endnotes 223

5 Globalization and Society 226

CASE: Ecomagination and the Global Greening of GE 227

Introduction 230
Evaluating the Impact of FDI 231
Considering the Logic of FDI 232
The Economic Impact of the MNE 234
Balance-of-Payments Effects 234
Growth and Employment Effects 236

The Foundations of Ethical Behavior 237
Why Do Companies Care About Ethical Behavior? 237
The Cultural Foundations of Ethical Behavior 238
The Legal Foundations of Ethical Behavior 240
Ethics and Corporate Bribery 241

Corruption and Bribery 241

Point Counterpoint Are Top Managers Responsible When Corruption Is Afoot? 244

Ethics and the Environment 246
What Is “Sustainability”? 246
Global Warming and the Kyoto Protocol 246
Looking to the Future: How to See the Trees in the Rain Forest 248
Ethical Dilemmas and Business Practices 249
Ethical Dilemmas and the Pharmaceutical Industry 249
Ethical Dimensions of Labor Conditions 251
Corporate Codes of Ethics: How Should a Company Behave? 254

Summary 260
Key Terms 261
Endnotes 261

■ PART THREE THEORIES AND INSTITUTIONS; TRADE AND INVESTMENT 264

6 International Trade and Factor-Mobility Theory 264

CASE: Costa Rica: Using Foreign Trade to Trade-Up Economically 265

Introduction 268
Laissez-Faire Versus Interventionist Approaches to Exports and Imports 269
Theories of Trade Patterns 269
Interventionist Theories 270
   Mercantilism 270
Free Trade Theories 271
   Theory of Absolute Advantage 272
   Theory of Comparative Advantage 274
   Theories of Specialization: Some Assumptions and Limitations 276
Trade Patterns Theories 278
   How Much Does a Country Trade? 278
   What Types of Products Does a Country Trade? 279
   With Whom Do Countries Trade? 282
Does Geography Matter? Variety Is the Spice of Life 284
The Statics and Dynamics of Trade 285
   Product Life Cycle (PLC) Theory 285
   The Porter Diamond 287
Point Counterpoint Should Nations Use Strategic Trade Policies? 289
Factor-Mobility Theory 291
   Why Production Factors Move 292
   Effects of Factor Movements 293
   The Relationship Between Trade and Factor Mobility 295
Looking to the Future: In What Direction Will Trade Winds Blow? 298
CASE: LUKOIL: Trade Strategy at a Privatized Exporter 299
Summary 302
Key Terms 304
Endnotes 304

7 Governmental Influence on Trade 306
CASE: Making the Emperor’s (and Everyone Else’s) New Clothes: Textile and Clothing Trade 307
Introduction 310
Conflicting Results of Trade Policies 311
   The Role of Stakeholders 311
Economic Rationales for Governmental Intervention 311
   Fighting Unemployment 312
   Protecting “Infant Industries” 313
   Developing an Industrial Base 314
   Economic Relationships with Other Countries 316
Noneconomic Rationales for Government Intervention 319
   Maintaining Essential Industries 319
   Preventing Shipments to “Unfriendly” Countries 319
Point Counterpoint Should Governments Forgo Trade Sanctions? 320
   Maintaining or Extending Spheres of Influence 321
   Preserving National Identity 321
Instruments of Trade Control 321
Tariffs 322
Nontariff Barriers: Direct Price Influences 323
Nontariff Barriers: Quantity Controls 325
Dealing with Governmental Trade Influences 328
Tactics for Dealing with Import Competition 329
Looking to the Future: Dynamics and Complexity 330
Summary 333
Key Terms 334
Endnotes 334

8 Cross-National Cooperation and Agreements 336
CASE: Toyota’s European Drive 337
Introduction 339
The World Trade Organization (WTO) 340
GATT: The Predecessor to the WTO 340
What Does the WTO Do? 341
The Rise of Bilateral Agreements 342
Regional Economic Integration 343
The Effects of Integration 344
Major Regional Trading Groups 345
The European Union 346
The North American Free Trade Agreement (NAFTA) 351
Regional Economic Integration in the Americas 356
Point Counterpoint: Is CAFTA-DR a Good Idea? 359
Regional Economic Integration in Asia 360
Regional Economic Integration in Africa 362
Looking to the Future: Will the WTO Overcome Bilateral and Regional Integration Efforts? 363
Other Forms of International Cooperation 364
Commodity Agreements 365
Commodities and the World Economy 366
Consumers and Producers 366
The Organization of Petroleum Exporting Countries (OPEC) 366
CASE: Wal-Mart Goes South 367
Summary 370
Key Terms 371
Endnotes 371
Exchange Rates: The Bottom Line 417
The Euro 419

Point Counterpoint Should Africa Develop a Common Currency? 421

Determining Exchange Rates 423
Nonintervention: Currency in a Floating-Rate World 423
Intervention: Currency in a Fixed-Rate or Managed-Floating-Rate World 424
The Role of Central Banks 424
Black Markets 428
Foreign-Exchange Convertibility and Controls 428
Exchange Rates and Purchasing Power Parity 429
Exchange Rates and Interest Rates 432
Other Factors in Exchange-Rate Determination 432

Forecasting Exchange-Rate Movements 433
 Fundamental and Technical Forecasting 433
 Factors to Monitor 435

Business Implications of Exchange-Rate Changes 436
 Marketing Decisions 436
 Production Decisions 436
 Financial Decisions 436

Looking to the Future: In Which Direction Is Exchange-Rate Flexibility Headed? 437

CASE: The Chinese Yuan: Be Careful of the Dragon’s Tail 438

Summary 442
Key Terms 443
Endnotes 444

PART FIVE GLOBAL STRATEGY, STRUCTURE, AND IMPLEMENTATION 446

11 The Strategy of International Business 446

CASE: Value Creation in the Global Apparel Industry 447

Introduction 451
Industry, Strategy, and Firm Performance 452
 Industry Organization Paradigm Leading Strategy Perspectives 453
 The Idea of Industry Structure: The Five-Forces Model 454
 Industry Change 455
 Strategy and Value 456
 Creating Value 457

The Firm as Value Chain 457
 What Is the Value Chain? 458
 Using the Value Chain 459
 Change and the Value Chain 468
12 Country Evaluation and Selection 488

CASE: Carrefour: Finding Retail Space in All the Right Places 489

Introduction 493

How Does Scanning Work? 494
Managing the Alternatives 494
Scanning Versus Detailed Analysis 494

What Information Is Important in Scanning? 496
Opportunities 496
Risks 501

Does Geography Matter? 504

Collecting and Analyzing Data 507
Some Problems with Research Results and Data 508
External Sources of Information 509
Internally Generated Data 510

Country Comparison Tools 512
Grids 512
Matrices 513

Allocating Among Locations 515
Alternative Gradual Commitments 515
Geographic Diversification Versus Concentration 516
Reinvestment Versus Harvesting 518

Noncomparative Decision Making 519
Looking to the Future: Will Prime Locations Change? 520

CASE: FDI in South Africa 521
Summary 524
Key Terms 525
Endnotes 525

13 Export and Import Strategies 528
  **CASE:** Grieve—A Small-Business Export Strategy 529
  Introduction 532
    Exporting and Importing 533
  Export Strategy 534
    Advantages to Consider 534
    Questions to Ask 535
    Strategic Advantages of Exporting 535
    Characteristics of Exporters 536
    Stages of Export Development 537
    Pitfalls of Exporting 538
    Designing an Export Strategy 539
  Import Strategy 543
    Types of Importers 543
    Strategic Advantages of Imports 543
  The Import Process 544
    Import Brokers 544
    Customs Agencies 545
  Looking to the Future: The Technology of Trade 546
    Import Documentation 548
  The Export Process 548
    Indirect Selling 548
    Direct Selling 551
  **Point Counterpoint:** A Dirty Dilemma: Exporting Hazardous Waste 553
    Export Documentation 554
    Sources of Regulatory Assistance 556
    Foreign Freight Forwarders 558
  Countertrade 559
  **CASE:** A Little Electronic Magic at Alibaba.com 561
  Summary 564
  Key Terms 565
  Endnotes 565

14 Direct Investment and Collaborative Strategies 568
  **CASE:** The Fizz Biz: Coca-Cola 569
  Introduction 572
  Why Exporting May Not Be Feasible 573
    When It's Cheaper to Produce Abroad 574
When Transportation Costs Too Much 575
When Domestic Capacity Isn’t Enough 575
When Products and Services Need Altering 575
When Trade Restrictions Hinder Imports 576
When Country of Origin Becomes an Issue 576

Noncollaborative Foreign Equity Arrangements 576
Taking Control: Foreign Direct Investment 577
How to Make FDI 578

Why Companies Collaborate 579
Alliance Types 579
General Motives for Collaborative Arrangements 580
International Motives for Collaborative Arrangements 582

Types of Collaborative Arrangements 583
Some Considerations in Collaborative Arrangements 583

Point Counterpoint  Should Countries Limit Foreign Control of Key Industries? 584
Licensing 586
Franchising 587
Management Contracts 588
Turnkey Operations 589
Joint Ventures 590
Equity Alliances 591

Problems with Collaborative Arrangements 592
Relative Importance 592
Divergent Objectives 593
Questions of Control 593
Comparative Contributions and Appropriations 594
Culture Clashes 595

Managing Foreign Arrangements 595
Dynamics of Collaborative Arrangements 596
Finding Compatible Partners 597
Negotiating the Arrangement 598
Drawing Up the Contract 598
Assessing Performance 599

Looking to the Future: Why Innovation Breeds Collaboration 599

CASE: Getting Airline Alliances Off the Ground 600

Summary 603
Key Terms 604
Endnotes 605

15 The Organization of International Business 608

CASE: Organizing “People, Values, and Environment” at Johnson & Johnson 609

Introduction 614
Change: The Critical Factor 614
Organizing Today's International Business 617

Organization Structure 617
Vertical Differentiation: Centralization Versus Decentralization 618
Horizontal Differentiation: The Design of the Formal Structure 620
Contemporary Structures 624

Coordination and Control Systems 629
Coordination Systems 629
Control Systems 632

Organization Culture 635
The Importance of Culture 635
Challenges and Pitfalls 637
Organization Culture and Strategy 638

Looking to the Future: The Role and Rise of Corporate Universities 639

CASE: Infosys: The Search for the Best and the Brightest 640

Summary 644
Key Terms 645
Endnotes 645

PART SIX MANAGING INTERNATIONAL OPERATIONS 648

16 Marketing Globally 648

CASE: Avon Calls on Foreign Markets 649
Introduction 654
Marketing Strategies 655
Marketing Orientations 655
Segmenting and Targeting Markets 657
Product Policies 659
Why Firms Alter Products 659

Point Counterpoint Should Home Governments Regulate Their Companies' Marketing in Developing Countries? 660
Alteration Costs 663
The Product Line: Extent and Mix 664

Pricing Strategies 664
Potential Obstacles in International Pricing 664

Promotion Strategies 669
The Push-Pull Mix 669
Some Problems in International Promotion 670

Branding Strategies 672
Worldwide Brand Versus Local Brands 673
Distribution Strategies 674

Does Geography Matter? Is Necessity the Mother of Invention? 675
- Deciding Whether to Standardize 676
- Choosing Distributors and Channels 676
- The Challenge of Getting Distribution 677
- Hidden Costs in Distribution 678
- E-Commerce and the Internet 679

Managing the Marketing Mix 680
- Gap Analysis 680

Looking to the Future: Marketing to the “Haves,” the “Have-Nots” (and the “Have-Somes”) 682

CASE: Tommy Hilfiger: Clothes Make the Man and Vice Versa 683

Summary 686
Key Terms 687
Endnotes 687

17 Global Manufacturing and Supply Chain Management 690

CASE: Samsonite’s Global Supply Chain 691

Introduction 694
- What Is Supply Chain Management? 695

Global Manufacturing Strategies 696
- Four Key Factors in Manufacturing Strategy 696

Information Technology and Global Supply Chain Management 700
- Information Technology 701

Quality 703
- Zero Defects Versus Acceptable Quality Level 703
- The Deming Approach to Quality Management 704
- Total Quality Management (TQM) 704
- Six Sigma 705
- Quality Standards 705

Supplier Networks 707
- Global Sourcing 708
- Major Sourcing Configurations 709
- The Make or Buy Decision 710

Point Counterpoint: Should Firms Outsource Innovation? 710
- Supplier Relations 712
- The Purchasing Function 713

Inventory Management 715
- Lean Manufacturing and Just-in-Time Systems 715
- Foreign Trade Zones 716
- Transportation Networks 717
18 International Accounting Issues 728

**CASE:** Parmalat: Europe's Enron 729

Introduction 733
   The Crossroads of Accounting and Finance 733

Accounting for International Differences 736
   Accounting Objectives 737
   Factors in International Accounting Practices 738
   Cultural Differences in Accounting 739
   Classifying Accounting Systems 741
   International Standards and Global Convergence 744

**Point Counterpoint** Should U.S. Companies Be Allowed to Close the GAAP? 748

Transactions in Foreign Currencies 749
   Recording Transactions 749

Translating Foreign-Currency Financial Statements 750
   Translation Methods 750

Management Accounting Issues 753
   Performance Evaluation and Control 753
   Transfer Pricing and Performance Evaluation 756
   The Balanced Scorecard 757

Corporate Governance 758
   External Control Mechanisms: The Legal System 759
   Internal Control Mechanisms 759

Looking to the Future: Will IFRS Become the Global Accounting Standard? 760

**CASE:** Ericsson: The Challenges of Listing on Global Capital Markets and the Move to Adopt International Financial Reporting Standards 761

Summary 766
Key Terms 767
Endnotes 767

19 The Multinational Finance Function 770

**CASE:** GPS: In the Market for an Effective Hedging Strategy? 771

Introduction 774
The Finance Function 774
   The Role of the CFO 775
Capital Structure 776
  Leveraging Debt Financing 776
  Factors Affecting the Choice of Capital Structure 776
  Debt Markets as Means of Expansion 778

Global Capital Markets 778
  Eurocurrencies and the Eurocurrency Market 778
  International Bonds 780
  Equity Securities and the Euroequity Market 781
  The Size of Global Stock Markets 782

Offshore Financing and Offshore Financial Centers 784
  What's an OFC? 784

Point Counterpoint Should Offshore Financial Centers and Aggressive Tax Practices Be Eliminated? 786

Capital Budgeting in a Global Context 787
  Methods of Capital Budgeting 788
  Complications in Capital Budgeting 788

Internal Sources of Funds 789
  Global Cash Management 790

Foreign-Exchange Risk Management 792
  Types of Exposure 792
  Exposure-Management Strategy 794

Taxation of Foreign-Source Income 797
  International Tax Practices 798
  Taxing Branches and Subsidiaries 800
  Transfer Prices 803
  Double Taxation and Tax Credit 803

Looking to the Future: Technology and Cash Flows 804

CASE: Dell Mercosur: Getting Real in Brazil 805

Summary 809
Key Terms 810
Endnotes 810

20 Human Resource Management 812

CASE: Go Or No Go: Your Career? 813

Introduction 817
  What Is HRM? 817

The Strategic Function of International HRM 818
  Strategizing HRM 819
  Developing Staffing Policies 821

Managing Expatriates 826
  Selecting Expatriates 827
  Expatriate Failure 828
  Training Expatriates 829