International Business

Competing in the Global Marketplace

12e

McGraw Hill Education

Charles W.L. Hill
G. Tomas M. Hult

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For my mother **June Hill,** and
the memory of my father,
Mike Hill—Charles W. L. Hill

For **Gert** & **Margareta Hult**,
my parents—**G. Tomas M. Hult**

about the AUTHORS

Charles W. L. Hill
University of Washington

Charles W. L. Hill is the Hughes M. and Katherine Blake Professor of Strategy and International Business at the Foster School of Business, University of Washington. The Foster School has a Center for International Business Education and Research (CIBER), one of only 17 funded by the U.S. Department of Education, and is consistently ranked as a Top-25 business school. Learn more about Professor Hill at foster.uw.edu/faculty-research/directory/charles-hill

A native of the United Kingdom, Professor Hill received his PhD from the University of Manchester, UK. In addition to the University of Washington, he has served on the faculties of the University of Manchester, Texas A&M University, and Michigan State University.

Professor Hill has published over 50 articles in top academic journals, including the *Academy of Management Journal, Academy of Management Review, Strategic Management Journal,* and *Organization Science.* Professor Hill has also published several textbooks including *International Business* (McGraw-Hill) and *Global Business Today* (McGraw-Hill). His work is among the most widely cited in the world in international business and strategic management. Beginning in 2014, Dr. Hill partnered with Dr. Tomas Hult in a formidable co-authorship of the IB franchise of textbooks (*International Business, Global Business Today*). This brought together two of the most cited international business scholars in history.

Professor Hill has taught in the MBA, Executive MBA, Technology Management MBA, Management, and PhD programs at the University of Washington. During his time at the University of Washington he has received over 25 awards for teaching excellence, including the Charles E. Summer Outstanding Teaching Award.

Professor Hill works on a private basis with a number of organizations. His clients have included Microsoft, where he has been teaching in-house executive education courses for two decades. He has also consulted for a variety of other large companies (e.g., AT&T Wireless, Boeing, BF Goodrich, Group Health, Hexcel, Microsoft, Philips Healthcare, Philips Medical Systems, Seattle City Light, Swedish Health Services, Tacoma City Light, Thompson Financial Services, WRQ, and Wizards of the Coast). Professor Hill has also served on the advisory board of several start-up companies.

For recreation, Professor Hill enjoys skiing, and competitive sailing!

G. Tomas M. Hult
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G. Tomas M. Hult is the John W. Byington Endowed Chair, professor of marketing and international business, and director of the International Business Center in the Eli Broad College of Business at Michigan State University. The Broad College has a Center for International Business Education and Research (CIBER), one of only 17 funded by the U.S. Department of Education, and is consistently ranked as a Top-25 business school. Learn more about Professor Hult at broad.msu.edu/facultystaff/hult

A native of Sweden, Professor Hult received a mechanical engineer degree in Sweden before obtaining a PhD at The University of Memphis. In addition to Michigan State University, he has served on the faculties of Florida State University and the University of Arkansas at Little Rock. Dr. Hult holds visiting professorships in the International Business group of his native Uppsala University, Sweden (since 2013) and the International Business division of Leeds University, UK (since 2010). Michigan State, Uppsala, and Leeds are all ranked in the top 10 in the world in international business research.

Several studies have ranked Professor Hult as one of the most cited scholars in the world in business and management. He served as editor of *Journal of the Academy of Marketing Science,* a Financial Times Top-50 business journal, and has published more than 70 articles in premier business journals, including *Journal of International Business Studies, Academy of Management Journal, Strategic Management Journal, Journal of Management, Journal of Marketing, Journal of the Academy of Marketing Science, Journal of Retailing, Journal of Operations Management, Decision Sciences,* and *IEEE.* He has also published several textbooks including *International Business* (McGraw-Hill) and *Global Business Today* (McGraw-Hill). Dr. Hult's other books include *Second Shift: The Inside Story of the Keep GM Movement*, *Global Supply Chain Management*, *Total Global Strategy*, and *Extending the Supply Chain*. He is a regular contributor of op-ed and articles in the popular press (e.g., *Time, Fortune, World Economic Forum, The Conversation*).

Professor Hult is a well-known keynote speaker on international business, international marketing, global supply chain management, global strategy, and marketing strategy. He teaches in doctoral, master's, and undergraduate programs at Michigan State University. He also teaches frequently in executive development programs and has developed a large clientele of the world's top multinational corporations (e.g., ABB, Albertsons, Avon, BG, Bechtel, Bosch, BP, Defense Logistics Agency, Domino's, FedEx, Ford, FreshDirect, General Motors, GroceryGateway, HSBC, IBM, Michigan Economic Development Corporation, Masco, NASA, Raytheon, Shell, Siemens, State Farm, Steelcase, Tech Data, and Xerox).

Tomas Hult is an elected Fellow of the Academy of International Business (AIB), one of only about 90 scholars worldwide receiving this honor, and serves as the executive director and foundation president of AIB. He also serves on the U.S. District Export Council and holds board member positions on the International Trade Center of Mid-Michigan and the Sheth Foundation.

Tomas enjoys tennis, golf, and traveling as his favorite recreational activities.

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THE PROVEN CHOICE FOR INTERNATIONAL BUSINESS

RELEVANT. PRACTICAL. INTEGRATED.

It is now more than a quarter of a century since work began on the first edition of *International Business: Competing in the Global Marketplace.* By the third edition the book was the most widely used international business text in the world. Since then its market share has only increased. The success of the book can be attributed to a number of unique features. Specifically, for the twelfth edition we have developed a learning program that

- Is comprehensive, state of the art, and timely.
- Is theoretically sound and practically relevant.
- Focuses on applications of international business concepts.
- Tightly integrates the chapter topics throughout.
- Is fully integrated with results-driven technology.
- Takes full and integrative advantage of globalEDGE.msu.edu—the Google-ranked #1 web resource for "international business resources."

International Business, now in its twelfth edition, co-authored by Charles W. L. Hill and G. Tomas M. Hult, is a comprehensive and case-oriented version of our text that lends itself to the core course in international business for those courses that want a deeper focus on the global monetary system, structure of international business, international accounting, and international finance. We cover more and integrated cases in *International Business 12e* and we provide a deeper treatment of the global capital market, the organization of an international business, international accounting, and international finance—topics that are allocated chapters in *International Business 12e* but are not attended to in the shorter treatment of IB in *Global Business Today 10e*.

Like our shorter text, *Global Business Today 10e* (2017), *International Business 12e*, focuses on being current, relevant, application rich, accessible, and student focused. Our goal has always been to cover macro and micro issues equally and in a relevant, practical, accessible, and student focused approach. We believe that anything short of such a breadth and depth of coverage is a serious deficiency. Many of the students in these international business courses will soon be working in global businesses, and they will be expected to understand the implications of international business for their organization's strategy, structure, and functions in the context of the global marketplace. We are proud and delighted to have put together this international business learning experience for the leaders of tomorrow.

Over the years, and through now 12 editions, Dr. Charles Hill has worked hard to adhere to these goals. Since *Global Business Today 9e* (2015), and *International Business 11e* (2017), Charles's co-author, Dr. Tomas Hult, follows the same approach. As a team, we have been guided not only by our own reading, teaching, and research but also by the invaluable feedback we received from professors and students around the world, from reviewers, and from the editorial staff at McGraw-Hill Education. Our thanks go out to all of them.

RELEVANT AND COMPREHENSIVE

To be relevant and comprehensive, an international business package must

- Explain how and why the world's cultures, countries, and regions differ.
- Cover economics and politics of international trade and investment.
- Tackle international issues related to ethics, corporate social responsibility, and sustainability.
- Explain the functions and form of the global monetary system.
- Examine the strategies and structures of international businesses.
- Assess the special roles of an international business's various functions.

This text has always endeavored to be relevant, practical, and integrated. Too many other products have paid insufficient attention to some portion of the topics mentioned, being skewed toward a particular portion of international business.

Relevance and comprehensiveness also require coverage of the major theories. It has always been a goal to incorporate the insights gleaned from recent academic scholarship into the book. Consistent with this goal, insights from the following research, as a sample of theoretical streams used in the book, have been incorporated:

- New trade theory and strategic trade policy.
- The work of Nobel Prize–winning economist Amartya Sen on economic development.
- Samuel Huntington's influential thesis on the "clash of civilizations."
- Growth theory of economic development championed by Paul Romer and Gene Grossman.
- Empirical work by Jeffrey Sachs and others on the relationship between international trade and economic growth.
- Michael Porter's theory of the competitive advantage of nations.
- Robert Reich's work on national competitive advantage.
- The work of Nobel Prize–winner Douglass North and others on national institutional structures and the protection of property rights.
- The market imperfections approach to foreign direct investment that has grown out of Ronald Coase and Oliver Williamson's work on transaction cost economics.
- Bartlett and Ghoshal's research on the transnational corporation.
- The writings of C. K. Prahalad and Gary Hamel on core competencies, global competition, and global strategic alliances.
- Insights for international business strategy that can be derived from the resource-based view of the firm and complementary theories.
- Paul Samuelson's critique of free trade theory.
- Conceptual and empirical work on global supply chain management—logistics, purchasing (sourcing), operations, and marketing channels.

In addition to including leading-edge theory, in light of the fast-changing nature of the international business environment we have made every effort to ensure that this product was as up-to-date as possible when it went to press. A significant amount has happened in the world since we began revisions of this book. By 2018, more than $4 trillion per day was flowing across national borders and, as we will see in Chapter 1, trade across borders has almost exponentially increased in the last 15 years. The size of such flows fueled concern about the ability of short-term speculative shifts in global capital markets to destabilize the world economy.

What's New in the Twelfth Edition

The world continued to become more global. Several Asian economies, most notably China and India, continued to grow their economies at a rapid rate. New multinationals continued to emerge from developing nations in addition to the world's established industrial powers. Increasingly, the globalization of the world economy affected a wide range of firms of all sizes, from the very large to the very small.

And unfortunately, global terrorism and the attendant geopolitical risks keep emerging in various places globally, many new and inconceivable just a decade ago. These represent a threat to global economic integration and activity. Plus, with the avenue of the United Kingdom opting to vote to leave the European Union, the election of President Donald Trump in the United States, and several elections around the world, the globe—in many ways—has paid more attention to nationalistic issues over trade. These topics and much more are integrated into this text for maximum learning opportunities.

The success of the first eleven editions of *International Business* was based in part on the incorporation of leading-edge research into the text, the use of the up-to-date examples and statistics to illustrate global trends and enterprise strategy, and the discussion of current events within the context of the appropriate theory. Building on these strengths, our goals for the twelfth edition have focused on the following:

1. Incorporate new insights from scholarly research.
2. Make sure the content covers all appropriate issues.
3. Make sure the text is up-to-date with events, statistics, and examples.
4. Add new and insightful opening and closing cases.
5. Incorporate value-added globalEDGE features in every chapter.
6. Connect every chapter to a focus on managerial implications.
7. Provide 20 new integrated cases that can be used as additional cases for specific chapters but, more importantly, as learning vehicles across multiple chapters.

As part of the overall revision process, changes have been made to every chapter in the book. All statistics have been updated to incorporate the most recently available data. As before, we are the only text in International Business that ensures that all material is up-to-date on virtually a daily basis. The copyright for the book is 2019 but you are likely using the text in 2018, 2019, or 2020—we keep it updated to each semester you use the text in your course! We are able to do this by integrating globalEDGE features in every chapter. Specifically, the Google number-one-ranked **globaledge.msu.edu** site (for "international business resources") is used in each chapter to add value to the chapter material and provide up-to-date data and information. This keeps chapter material constantly and dynamically updated for teachers who want to infuse globalEDGE material into the chapter topics, and it keeps students abreast of current developments in international business.

In addition to updating all statistics, figures, and maps to incorporate the most recently published data, a chapter-by-chapter selection of changes for the eleventh edition include the following:

Chapter 1: Globalization

- New opening case: Globalization of BMW, Rolls-Royce, and the MINI
- New materials on international trade, trade agreements, world production, and world population
- Explanations of differences in cross-border trade and in-country production; the value of trade agreements; and population implications related to resource constraints
- New closing case: Uber: Going Global from Day One

Chapter 2: National Differences in Political, Economic, and Legal Systems

- New opening case: The Decline of Zimbabwe
- Updated section on Pseudo-Democracies
- Updated data and figure on corruption
- New country focus: Corruption in Brazil
- New closing case: Economic Transformation in Vietnam

Chapter 3: National Differences in Economic Development

- New opening case: Economic Development in Bangladesh
- Updated data, maps and discussion on Differences in Economic Development
- Updated data, maps and discussion on the spread of democracy and market-based economic systems.
- New closing case: The Political and Economic Evolution of Indonesia

Chapter 4: Differences in Culture

- New opening case: The Swatch Group and Cultural Uniqueness
- New management focus: China and Its *Guanxi*
- Deeper treatment of culture, values, and norms
- Worked with the foundation that most religions are now pro-business
- Updated the Hofstede culture framework with new research
- New closing case: The Emirates Group and Employee Diversity

Chapter 5: Ethics, Corporate Social Responsibility, and Sustainability

- New opening case: Woolworths Group's Corporate Responsibility Strategy 2020
- New management focus: "Emissionsgate" at Volkswagen
- Deeper focus on corporate social responsibility and sustainability at the country, company, and customer levels
- New closing case: UNCTAD Sustainable Development Goals

Chapter 6: International Trade Theory

- New opening case: Donald Trump on Trade
- Added discussion of Donald Trump's views on trade at appropriate points in the chapter.
- Expanded discussion of David Autor's important research on trade and employment in U.S. counties impacted by trade with China.
- New closing case: The Trans Pacific Partnership (TPP)

Chapter 7: Government Policy and International Trade

- New opening case: Boeing and Airbus Are in a Dogfight over Illegal Subsidies
- New section, The World Trading System under Threat, discussing the possible implications of BREXIT and the election of Donald Trump (who appears to hold mercantilist views on trade).
- New closing case: Is China Dumping Excess Steel Production?

Chapter 8: Foreign Direct Investment

- New opening case: Foreign Direct Investment in Retailing in India
- Updated data and discussion on FDI trends on the world economy.
- New closing case: Burberry Shifts Its Strategy in Japan

Chapter 9: Regional Economic Integration

- New opening case: Renegotiating NAFTA
- New section discussing the implications of BREXIT for Britain and the European Union
- New section on the future of NAFTA in light of Donald Trump's election as president
- New closing case: The Push toward Free Trade in Africa

Chapter 10: The Foreign Exchange Market

- New opening case: The Mexican Peso, the Japanese Yen, and *Pokemon Go*
- New closing case: Apple's Earnings Hit by Strong Dollar

Chapter 11: The International Monetary System

- New opening case: Egypt and the IMF
- Updated discussion of exchange rates since 1973 to reflect recent exchange rate movements.
- New closing case: China's Exchange Rate Regime

Chapter 12: The Global Capital Market

- New opening case: Saudi Aramco
- New closing case: Alibaba's Record-Setting IPO

Chapter 13: The Strategy of International Business

- New opening case: Sony's Global Strategy
- Deeper discussion of the rise of regionalism
- Integration of global strategy thoughts
- New closing case: IKEA's Global Strategy

Chapter 14: The Organization of International Business

- Revised opening case: Unilever's Global Organization
- Revised Management Focus: Walmart International
- Revised Management Focus: Lincoln Electric and Culture
- New closing case: Organizational Architecture at P&G

Chapter 15: Entry Strategy and Strategic Alliances

- New opening case: Gazprom and Global Strategic Alliances
- Deeper treatment of entry modes and global strategic alliances
- Revised closing case: Starbucks' Foreign Entry Strategy

Chapter 16: Exporting, Importing, and Countertrade

- New opening case: Tata Motors and Exporting
- globalEDGE-related material on company readiness to export and company readiness to import material
- Revised management focus: Ambient Technologies and the Panama Canal
- New and revised material on globalEDGE Diagnostic Tools; focusing on CORE-Company Readiness to Export
- New closing case: Embraer and Brazilian Importing

Chapter 17: Global Production and Supply Chain Management

- New opening case: Alibaba and Global Supply Chains
- Revised and new material on global logistics, global purchasing, and global operations.
- Revised sections on Strategic Roles for Production Facilities, Make-or-Buy Decisions, and Global Supply Chain Functions
- New text for the sections on Role of Information Technology, Coordination in Global Supply Chains, and Interorganizational Relationships
- New closing case: Amazon's Global Supply Chains

Chapter 18: Global Marketing and R&D

- New opening case: ACSI and Satisfying Global Customers

- Revised sections on Globalization of Markets and Brands, Configuring the Marketing Mix (with a great summary table and sample measures), and International Market Research
- Revised positioning of the Product Development section
- New closing case: Global Branding, Marvel Studios, and Walt Disney Company

Chapter 19: Global Human Resource Management

- New opening case: Building a Global Diverse Workforce at Sodexo
- New section: Building a Diverse Global Workforce
- New closing case: AstraZeneca

Chapter 20: Accounting and Finance in the International Business

- Revised opening case: Shoprite—Financial Success of a Food Retailer in Africa
- Revised materials on global accounting standards and organizations
- Revised closing case: Tesla, Inc.—Subsidizing Tesla Automobiles Globally

Integrated Cases

All of the 20 integrated cases are new for *International Business 12e*. Many of these cases build on previous opening and closing chapter cases that have been revised, updated, and oftentimes adopted a new angle or focus. A unique feature of the opening and closing cases for the chapters as well as the integrated cases at the back-end of the text is that we cover all continents of the world and we do so with regional or country issues and large, medium, and small company scenarios. This makes the 60 total cases we have included in *International Business 12e* remarkable wealthy as a learning program. As a heads up for teachers (and students), the Domino's case is the lengthiest and most in-depth in the twelfth edition.

- Global Medical Tourism
- Venezuela under Hugo Chávez and Beyond
- Political and Economic Reform in Myanmar
- Will China Continue to be a Growth Marketplace
- Lead in Toys and Drinking Water
- Creating the World's Biggest Free Trade Zone
- Sugar Subsidies Drive Candy Makers Abroad
- Volkswagen in Russia
- The NAFTA Tomato Wars
- Subaru's Sales Boom Thanks to the Weaker Yen
- The IMF and Ukraine's Economic Crisis
- The Global Financial Crisis and Its Aftermath: Declining Cross-Border Capital Flows
- Ford's Global Platform Strategy
- Philips' Global Restructuring
- General Motors and Chinese Joint Ventures
- Exporting Desserts by a Hispanic Entrepreneur
- Apple: The Best Supply Chains in the World?
- Domino's Global Marketing
- Siemens and Global Competitiveness
- Microsoft and Its Foreign Cash Holdings

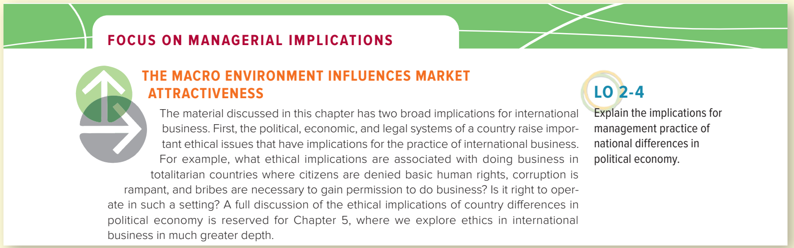
Beyond Uncritical Presentation and Shallow Explanation

Many issues in international business are complex and thus necessitate considerations of pros and cons. To demonstrate this to students, we have adopted a critical approach that presents the arguments for and against economic theories, government policies, business strategies, organizational structures, and so on.

Related to this, we have attempted to explain the complexities of the many theories and phenomena unique to international business so the student might fully comprehend the statements of a theory or the reasons a phenomenon is the way it is. We believe that these theories and phenomena are explained in more depth in this work than they are in the competition, which seem to use the rationale that a shallow explanation is little better than no explanation. In international business, a little knowledge is indeed a dangerous thing.

Practical and Rich Applications

We have always believed that it is important to show students how the material covered in the text is relevant to the actual practice of international business. This is explicit in the later chapters of the book, which focus on the practice of international business, but it is not always obvious in the first half of the book, which considers many macroeconomic and political issues, from international trade theory and foreign direct investment flows to the IMF and the influence of inflation rates on foreign exchange quotations. Accordingly, at the end of each chapter in Parts Two, Three, and Four—where the focus is on the environment of international business, as opposed to particular firms—there is a section titled **Focus on Managerial Implications**. In this section, the managerial implications of the material discussed in the chapter are clearly explained.

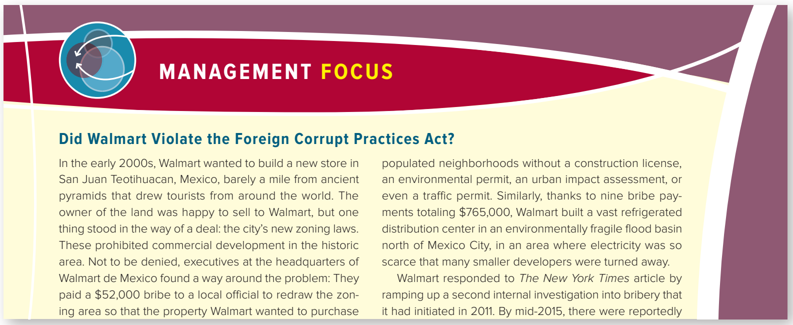

FOCUS ON MANAGERIAL IMPLICATIONS

THE MACRO ENVIRONMENT INFLUENCES MARKET ATTRACTIVENESS

The material discussed in this chapter has two broad implications for international business. First, the political, economic, and legal systems of a country raise important ethical issues that have implications for the practice of international business. For example, what ethical implications are associated with doing business in totalitarian countries where citizens are denied basic human rights, corruption is rampant, and bribes are necessary to gain permission to do business? Is it right to operate in such a setting? A full discussion of the ethical implications of country differences in political economy is reserved for Chapter 5, where we explore ethics in international business in much greater depth.

LO 2-4
Explain the implications for management practice of national differences in political economy.

Another tool that we have used to focus on managerial implications is the **Management Focus** box. Most chapters have at least one Management Focus. Like the opening cases, the purpose of these boxes is to illustrate the relevance of chapter material for the practice of international business.


MANAGEMENT FOCUS

Did Walmart Violate the Foreign Corrupt Practices Act?

In the early 2000s, Walmart wanted to build a new store in San Juan Teotihuacan, Mexico, barely a mile from ancient pyramids that drew tourists from around the world. The owner of the land was happy to sell to Walmart, but one thing stood in the way of a deal: the city's new zoning laws. These prohibited commercial development in the historic area. Not to be denied, executives at the headquarters of Walmart de Mexico found a way around the problem: They paid a $52,000 bribe to a local official to redraw the zoning area so that the property Walmart wanted to purchase populated neighborhoods without a construction license, an environmental permit, an urban impact assessment, or even a traffic permit. Similarly, thanks to nine bribe payments totaling $765,000, Walmart built a vast refrigerated distribution center in an environmentally fragile flood basin north of Mexico City, in an area where electricity was so scarce that many smaller developers were turned away.

Walmart responded to *The New York Times* article by ramping up a second internal investigation into bribery that it had initiated in 2011. By mid-2015, there were reportedly

part two National Differences

National Differences in Economic Development

3

LEARNING OBJECTIVES

After reading this chapter, you will be able to:

LO3-1 Explain what determines the level of economic development of a nation.

LO3-2 Identify the macropolitical and macroeconomic changes occurring worldwide.

LO3-3 Describe how transition economies are moving toward market-based systems.

LO3-4 Explain the implications for management practice of national difference in political economy.

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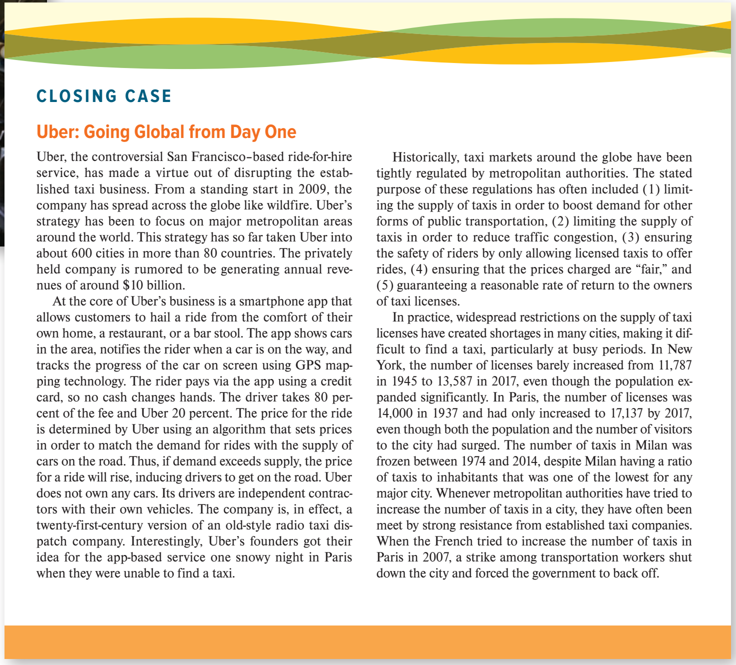
In addition, each chapter begins with an **opening case** that sets the stage for the chapter content and familiarizes students with how real international companies conduct business.



CLOSING CASE

Uber: Going Global from Day One

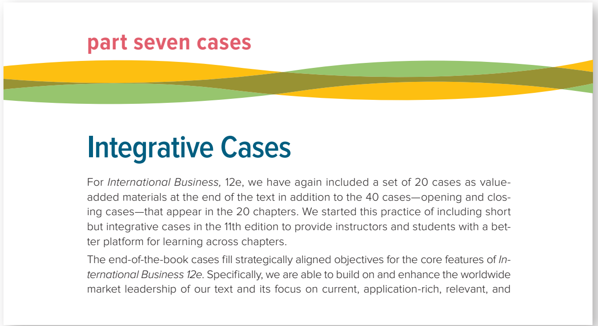
Uber, the controversial San Francisco–based ride-for-hire service, has made a virtue out of disrupting the established taxi business. From a standing start in 2009, the company has spread across the globe like wildfire. Uber's strategy has been to focus on major metropolitan areas around the world. This strategy has so far taken Uber into about 600 cities in more than 80 countries. The privately held company is rumored to be generating annual revenues of around $10 billion.

At the core of Uber's business is a smartphone app that allows customers to hail a ride from the comfort of their own home, a restaurant, or a bar stool. The app shows cars in the area, notifies the rider when a car is on the way, and tracks the progress of the car on screen using GPS mapping technology. The rider pays via the app using a credit card, so no cash changes hands. The driver takes 80 percent of the fee and Uber 20 percent. The price for the ride is determined by Uber using an algorithm that sets prices in order to match the demand for rides with the supply of cars on the road. Thus, if demand exceeds supply, the price for a ride will rise, inducing drivers to get on the road. Uber does not own any cars. Its drivers are independent contractors with their own vehicles. The company is, in effect, a twenty-first-century version of an old-style radio taxi dispatch company. Interestingly, Uber's founders got their idea for the app-based service one snowy night in Paris when they were unable to find a taxi.

Historically, taxi markets around the globe have been tightly regulated by metropolitan authorities. The stated purpose of these regulations has often included (1) limiting the supply of taxis in order to boost demand for other forms of public transportation, (2) limiting the supply of taxis in order to reduce traffic congestion, (3) ensuring the safety of riders by only allowing licensed taxis to offer rides, (4) ensuring that the prices charged are "fair," and (5) guaranteeing a reasonable rate of return to the owners of taxi licenses.

In practice, widespread restrictions on the supply of taxi licenses have created shortages in many cities, making it difficult to find a taxi, particularly at busy periods. In New York, the number of licenses barely increased from 11,787 in 1945 to 13,587 in 2017, even though the population expanded significantly. In Paris, the number of licenses was 14,000 in 1937 and had only increased to 17,137 by 2017, even though both the population and the number of visitors to the city had surged. The number of taxis in Milan was frozen between 1974 and 2014, despite Milan having a ratio of taxis to inhabitants that was one of the lowest for any major city. Whenever metropolitan authorities have tried to increase the number of taxis in a city, they have often been meet by strong resistance from established taxi companies. When the French tried to increase the number of taxis in Paris in 2007, a strike among transportation workers shut down the city and forced the government to back off.

A **closing case** to each chapter is designed to illustrate the relevance of chapter material for the practice of international business and provide continued insight into how real companies handle those issues.



part seven cases

Integrative Cases

For *International Business,* 12e, we have again included a set of 20 cases as value-added materials at the end of the text in addition to the 40 cases—opening and closing cases—that appear in the 20 chapters. We started this practice of including short but integrative cases in the 11th edition to provide instructors and students with a better platform for learning across chapters.

The end-of-the-book cases fill strategically aligned objectives for the core features of *International Business 12e*. Specifically, we are able to build on and enhance the worldwide market leadership of our text and its focus on current, application-rich, relevant, and

The **Part Seven Integrated Cases** are somewhat longer, allowing a more in-depth study of international companies. These cases can be used as stand-alone cases, in conjunction with a specific chapter, and also as integrated cases covering relevant and practical material from several chapters. The introduction to the Part Seven section discusses and lays out topics covered in each case.

To help students go a step further in expanding their application-level understanding of international business, each chapter incorporates two **globalEDGE research tasks** designed and written by Tomas Hult, Tunga Kiyak, and the team at Michigan State University's International Business Center and their globaledge.msu.edu site. The exercises dovetail with the content just covered.

INTEGRATED PROGRESSION OF TOPICS

A weakness of many texts is that they lack a tight, integrated flow of topics from chapter to chapter. This book explains to students in Chapter 1 how the book's topics are related to each other. Integration has been achieved by organizing the material so that each chapter builds on the material of the previous ones in a logical fashion.

Part One

Chapter 1 provides an overview of the key issues to be addressed and explains the plan of the book. Globalization of markets and globalization of production is the core focus.

Part Two

Chapters 2 through 4 focus on country differences in political economy and culture, and Chapter 5 on ethics, corporate social responsibility, and sustainability issues in international business. Most international business textbooks place this material at a later point, but we believe it is vital to discuss national differences first. After all, many of the central issues in international trade and investment, the global monetary system, international business strategy and structure, and international business functions arise out of national differences in political economy and culture.

Part Three

Chapters 6 through 9 investigate the political economy of global trade and investment. The purpose of this part is to describe and explain the trade and investment environment in which international business occurs.

Part Four

Chapters 10 through 12 describe and explain the global monetary system, laying out in detail the monetary framework in which international business transactions are conducted.

Part Five

In Chapters 13 through 15 attention shifts from the environment to the firm. In other words, we move from a macro focus to a micro focus at this stage of the book. We examine strategies and structures that firms adopt to compete effectively in the international business environment.

Part Six

In Chapters 16 through 20 the focus narrows further to investigate business functions and related operations. These chapters explain how firms can perform their key functions—exporting, importing, and countertrade; global production; global supply chain management; global marketing; global research and development (R&D); human resource management; accounting; and finance—to compete and succeed in the international business environment.

Throughout the book, the relationship of new material to topics discussed in earlier chapters is pointed out to the students to reinforce their understanding of how the material comprises an integrated whole. We deliberately bring a management focus to the macro chapters (Chapters 1 through 12). We also integrate macro themes in covering the micro chapters (Chapters 13 through 20). Part Seven with its integrated cases also provides a great learning vehicle to better understand macro and micro issues.

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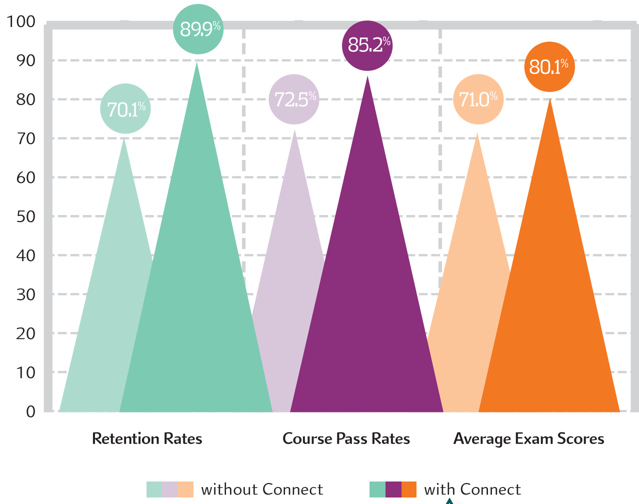

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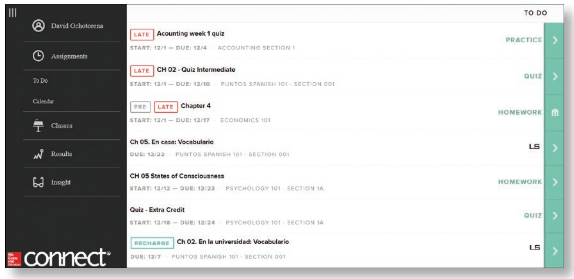

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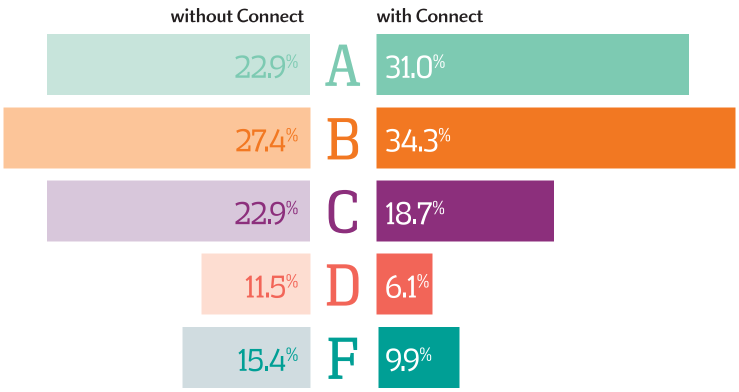

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International Business

Competing in the Global Marketplace

part one Introduction and Overview

Globalization

1

LEARNING OBJECTIVES

After reading this chapter, you will be able to:

LO1-1 Understand what is meant by the term *globalization*.

LO1-2 Recognize the main drivers of globalization.

LO1-3 Describe the changing nature of the global economy.

LO1-4 Explain the main arguments in the debate over the impact of globalization.

LO1-5 Understand how the process of globalization is creating opportunities and challenges for management practice.

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Globalization of BMW, Rolls-Royce, and the MINI

OPENING CASE

Bayerische Motoren Werke, which is German for Bavarian Motor Works, is better known globally for its acronym BMW (bmwgroup.com). BMW was created as a combination of three German manufacturing companies: Rapp Motorenwerke and Bayerische Flugzeugwerke in Bavaria and Fahrzeugfabrik Eisenach in Thuringia. Aircraft engine manufacturer Rapp Motorenwerke became Bayerische Motorenwerke in 1916, and the company added motorcycles to its product repertoire in 1923. BMW expanded to automobiles in 1929 when it purchased Fahrzeugfabrik Eisenach, which built Austin 7 cars under a license from Dixi. Fittingly, the first BMW car was called the BMW Dixi.

Globally, BMW is known for streamlined design, incredible luxury, and top-notch performance. The company has more than 125,000 employees, delivers about 2.4 million vehicles annually, and has a revenue of €95 billion (about $103 billion in U.S. dollars). Its leadership spans products in automobiles, motorcycles, and aircraft engines. Innovation is one of the main success factors for the BMW Group, and innovation is infused into all of BMW's product lines. The company claims that focusing on the future is an important part of BMW's identity, day-to-day work, and the reason for its global success. In addition to the well-known BMW brand, BMW also owns the iconic Rolls-Royce brand and the distinctive MINI automobiles.

BMW and "driving pleasure" are synonymous, even by people not owning a BMW! BMW creates driving pleasure from the perfect combination of dynamic, sporty performance; ground-breaking innovations; and breath-taking design. With a range of car models, a unique feature of BMW is its "M" designation models that takes the "driving pleasure" to another level. BMW "M" (for Motorsport) was initially created to facilitate BMW's racing program but has since become a supplement to BMW's vehicles portfolio with specially modified higher trim features. BMW M is part of an outstanding motorsports heritage and stands for high performance out of passion, with the latest addition to the line being the BMW M760. It's the evolutionary link that connects BMW and Rolls-Royce, bridging the gap between the 7 Series and the entry-level Rolls-Royce Ghost.

Rolls-Royce is considered the most exclusive luxury automobile brand in the world. This reputation is rooted in the brand's long history and rich tradition. Rolls-Royce delivers the promise of effortless power, luxury, quality, and perfect sanctuary. The entry-level Rolls Royce Ghost carries a price tag around $250,000, and the models escalate from that price point. Rolls-Royce has, from its early days of daring experimentation, created a vision for luxury that is rooted in constantly chasing perfection. This perfection drives the supreme quality, exquisite hand craftsmanship, and attention to the finest detail to maintain its global position as the pinnacle luxury automobile manufacturer in the world. Like Rolls-Royce, the MINI also traces its roots to the United Kingdom.

MINI is a car brand that is owned by BMW that specializes in small cars. The full platform of MINI cars is small, with the idea of maximizing the experience and concentrating on the essential. A long-standing attention to clever solutions with distinctive designs unlocks urban driving and caters to customers' individual needs. The most iconic is the MINI Cooper, named after British racing legend John Cooper. The MINI Cooper product line has a uniquely sporting blend of classic British mini-car heritage and appeal with precise German engineering and construction. According to the MINI team, they are targeting affluent urban dwellers in their 20s and 30s who enjoy the fun, freedom, and individuality that the MINI cars offer—or perhaps we should just say they target newly graduated college students living in cities!

To help with its targeting of affluent urban dwellers for the MINI or the even more affluent clientele for the BMW or Rolls-Royce, the BMW Group's leaders have studied brands outside of the automobile industry to create the company's future retail strategy. Enter the "product genius." BMW's product genius is a noncommissioned car expert who will spend whatever time it takes or is needed to educate customers about their car choices, options, and any issue that the customer wants to get more information on. This shifts the "performance" from closing the sale of a car to making the customer satisfied, which lessens the typical pressure most customers feel when walking in to a car dealership (and likewise lessens the pressure of the salesperson to sell a car to get commission).

Sources: Jonathan M. Gitlin, "The 2017 BMW M760i Is a Hell of a Car, but Is It an M?" *ARS Technica,* February 8, 2017; "BMW at 100: Bavarian Rhapsody," *The Economist,* March 12, 2016; Carmine Gallo, "BMW Radically Rethinks the Car Buying Experience," *Forbes,* April 18, 2014; "How German Cars Beat British Motors—and Kept Going," *BBC News,* August 2, 2013; Hannah Elliott, "The Best Luxury Sedan Is Still a BMW," *Bloomberg BusinessWeek,* June 6, 2016.

Introduction

Over the past five decades, a fundamental shift has been occurring in the world economy. We have been moving away from a world in which national economies were relatively self-contained entities, isolated from each other by barriers to cross-border trade and investment; by distance, time zones, and language; and by national differences in government regulation, culture, and business systems. And, as we will see later on in this chapter as well as throughout the text, international trade across country borders has become the norm, with an almost exponential increase in trade during the last decade.

We are moving toward a world in which barriers to cross-border trade and investment are declining; perceived distance is shrinking due to advances in transportation and telecommunications technology; material culture is starting to look similar the world over; and national economies are merging into an interdependent, integrated global economic system. The process by which this transformation is occurring is commonly referred to as ***globalization***. At the same time, recent political world events (e.g., increase of terrorism, United Kingdom voting to leave the European Union, and the elections around the globe of nationalistic politicians) create tension and uncertainty regarding the future of global trade activities.

Interestingly, as the opening case outlines, BMW's focus on the future is an important part of the company's identity, its day-to-day work, and the reason for its global success. The futuristic perspective of BMW manifests itself in innovation, striving for improvement, positive change, and improved performance at all times to make customers satisfied and feel that they receive value for the money they spend on BMW products. Innovation is one of the main success factors for the BMW Group, and innovation is infused into all of BMW's product lines. Likewise, proponents of increased trade argue that cross-cultural engagement and trade across country borders is the future and that returning back to a nationalistic perspective is the past. Meanwhile, the nationalistic argument rests in citizens wanting their country to be sovereign, self-sufficient as much as possible, and basically in charge of their own economy and country environment. As with any debate, both arguments and sides have merit. We will explore all aspects of today's global marketplace in this text through 20 integrated and topical chapters.

Focusing on the increase in globalization, the rise of Uber, which we discuss in the closing case in this chapter, is an illustration of the trend toward the unique opportunities that globalization can present to a company. From a standing start in 2009, Uber has built a global ride-for-hire taxi service that by 2018 could be found in more than 600 cities in more than 70 countries. Uber customers visiting London, New York, Athens, Paris, or Hong Kong can now quickly find rides by using the Uber app on their smartphone. Uber has rapidly built a global brand. Its strategy was to be "born global" virtually from day one of the company's founding. In doing so, it is similar to many other modern technology businesses such as Facebook, Google, and Amazon that have also rapidly built a global presence.

At the same time, it has not always been smooth sailing for Uber. Local authorities have banned or placed tight restrictions on Uber's service in many cities around the world. Uber's brash American ways have not always endeared them to local regulators, drivers, and customers. It is perhaps true, as critics have noted, that Uber might have done even better internationally if it had adapted its entry strategy to take local differences in regulations, culture, and political realities into account. With the rise in nationalism in many countries, companies like Uber face potential barriers to entry and operations that were hard to foresee just a few years ago.

That said, globalization now does have an impact on almost everything we do. For example, the average American—let's call the person Isabelle—might drive to work in a car that was designed in Germany and assembled in Mexico by Ford from components made in the United States and Japan, which were fabricated from Korean steel and

Malaysian rubber. Isabelle may have filled the car with gasoline at a Shell service station owned by a British-Dutch multinational company. The gasoline could have been made from oil pumped out of a well off the coast of Africa by a French oil company that transported it to the United States in a ship owned by a Greek shipping line. While driving to work, Isabelle might talk to her stockbroker (using a hands-free, in-car speaker) on an Apple iPhone that was designed in California and assembled in China using chip sets produced in Japan and Europe, glass made by Corning in Kentucky, and memory chips from South Korea. She could tell the stockbroker to purchase shares in Lenovo, a multinational Chinese PC manufacturer whose operational headquarters is in North Carolina and whose shares are listed on the New York Stock Exchange.

This is the world in which we live. And, interestingly, in many cases we simply do not know or perhaps even care to know where the product was deigned and where it was made. This is a change in attitude and interest. Just a couple of decades ago, "Made in the USA" or "Made in Germany" had strong meaning and referred to something (e.g., U.S. often stood for quality and Germany often stood for sophisticated engineering). The country of origin for a product has now given way to "Made by BMW," and the company is the quality assurance platform, not the country. In many cases, it goes even beyond the company to the personal relationships a customer has developed with a representative of a company—here we focus on what has become know as CRM (customer relationship management).

Whether it is still quality associated with the country of a product's origin or the assurance given by a specific company regardless of where they manufacture the product, we live in a world where the volume of goods, services, and investments crossing national borders has expanded faster than world output for more than half a century. It is a world where more than $5 trillion in foreign exchange transactions are made every day, where $19 trillion of goods and $5 trillion of services are sold across national borders every year.[1] It is a world in which international institutions such as the World Trade Organization and gatherings of leaders from the world's most powerful economies continue to work for even lower barriers to cross-border trade and investment. It is a world where the symbols of material and popular culture are increasingly global: from Coca-Cola and Starbucks to Sony PlayStations, Facebook, Netflix video streaming service, IKEA stores, and Apple iPads and iPhones. It is also a world in which vigorous and vocal groups protest against globalization, which they blame for a list of ills from unemployment in developed nations to environmental degradation and the Westernization or Americanization of local culture. These protesters now come from environmental groups, which have been around for some time, and more recently also from nationalistic groups focused on countries being more sovereign.

For businesses, the globalization process has produced many opportunities. Firms can expand their revenues by selling around the world and/or reduce their costs by producing in nations where key inputs, including labor, are cheap. The global expansion of enterprises has been facilitated by generally favorable political and economic trends. Since the collapse of communism over a quarter of a century ago, the pendulum of public policy in many nations has swung toward the free market end of the economic spectrum. Regulatory and administrative barriers to doing business in foreign nations have been reduced, while those nations have often transformed their economies, privatizing state-owned enterprises, deregulating markets, increasing competition, and welcoming investment by foreign businesses. This has allowed businesses both large and small, from both advanced nations and developing nations, to expand internationally.

As globalization unfolds, it is transforming industries and creating anxiety among those who believed their jobs were protected from foreign competition. Historically, while many workers in manufacturing industries worried about the impact foreign competition might have on their jobs, workers in service industries felt more secure. Now, this too is changing. Advances in technology, lower transportation costs, and the rise of skilled workers in developing countries imply that many services no longer need to be performed where they are delivered. Today, many individual U.S. tax returns are compiled in India. Indian accountants, trained in U.S. tax rules, perform work for U.S. accounting firms.[2] They access individual tax returns stored on computers in the United States, perform routine calculations, and save their work so that it can be inspected by a U.S. accountant, who then bills clients. As the best-selling author Thomas Friedman has argued, the world is becoming flat.[3] People living in developed nations no longer have the playing field tilted in their favor. Increasingly, enterprising individuals based in India, China, or Brazil have the same opportunities to better themselves as those living in western Europe, the United States, or Canada.

In this text, we will take a close look at the issues introduced here and many more. We will explore how changes in regulations governing international trade and investment, when coupled with changes in political systems and technology, have dramatically altered the competitive playing field confronting many businesses. We will discuss the resulting opportunities and threats and review the strategies that managers can pursue to exploit the opportunities and counter the threats. We will consider whether globalization benefits or harms national economies. We will look at what economic theory has to say about the outsourcing of manufacturing and service jobs to places such as India and China and look at the benefits and costs of outsourcing, not just to business firms and their employees but also to entire economies. First, though, we need to get a better overview of the nature and process of globalization, and that is the function of this first chapter.

LO 1-1

Understand what is meant by the term *globalization*.

What Is Globalization?

As used in this text, **globalization** refers to the shift toward a more integrated and interdependent world economy. Globalization has several facets, including the globalization of markets and the globalization of production.

THE GLOBALIZATION OF MARKETS

The **globalization of markets** refers to the merging of historically distinct and separate national markets into one huge global marketplace. Falling barriers to cross-border trade and investment have made it easier to sell internationally. It has been argued for some time that the tastes and preferences of consumers in different nations are beginning to converge on some global norm, thereby helping create a global market.[4] Consumer products such as Citigroup credit cards, Coca-Cola soft drinks, video games, McDonald's hamburgers, Starbucks coffee, IKEA furniture, and Apple iPhones are frequently held up as prototypical examples of this trend. The firms that produce these products are more than just benefactors of this trend; they are also facilitators of it. By offering the same basic product worldwide, they help create a global market.

A company does not have to be the size of these multinational giants to facilitate, and benefit from, the globalization of markets. In the United States, for example, according to the International Trade Administration, more than 300,000 small and medium-size firms with fewer than 500 employees exported in 2017, accounting for 98 percent of the companies that exported that year. More generally, exports from small and medium-sized companies accounted for 33 percent of the value of U.S. exports of manufactured goods.[5] Typical of these is B&S Aircraft Alloys, a New York company whose exports account for 40 percent of its $8 million annual revenues.[6] The situation is similar in several other nations. For example, in Germany, a staggering 98 percent of small and midsize companies have exposure to international markets, via either exports or international production. Since 2009, China has been the world's largest exporter, sending more than $2 trillion worth of products and services last year from its country to the rest of the world.

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Despite the global prevalence of Citigroup credit cards, McDonald's hamburgers, Starbucks coffee, and IKEA stores, for example, it is important not to push too far the view that national markets are giving way to the global market. As we shall see in later chapters, significant differences still exist among national markets along many relevant dimensions, including consumer tastes and preferences, distribution channels, culturally embedded value systems, business systems, and legal regulations. Uber, for example, the fast-growing ride-for-hire service, is finding that it needs to refine its entry strategy in many foreign cities in order to take differences in the regulatory regime into account. These differences frequently require companies to customize marketing strategies, product features, and operating practices to best match conditions in a particular country.

The most global of markets are not typically markets for consumer products—where national differences in tastes and preferences can still be important enough to act as a brake on globalization—but markets for industrial goods and materials that serve universal needs the world over. These include the markets for commodities such as aluminum, oil, and wheat; for industrial products such as microprocessors, DRAMs (computer memory chips), and commercial jet aircraft; for computer software; and for financial assets from U.S. Treasury bills to Eurobonds and futures on the Nikkei index or the euro. That being said, it is increasingly evident that many newer high-technology consumer products, such as Apple's iPhone, are being successfully sold the same way the world over.

In many global markets, the same firms frequently confront each other as competitors in nation after nation. Coca-Cola's rivalry with PepsiCo is a global one, as are the rivalries between Ford and Toyota; Boeing and Airbus; Caterpillar and Komatsu in earthmoving equipment; General Electric and Rolls-Royce in aero engines; Sony, Nintendo, and Microsoft in video-game consoles; and Samsung and Apple in smartphones. If a firm moves into a nation not currently served by its rivals, many of those rivals are sure to follow to prevent their competitor from gaining an advantage.[7] As firms follow each other around the world, they bring with them many of the assets that served them well in other national markets—their products, operating strategies, marketing strategies, and brand names—creating some homogeneity across markets. Thus, greater uniformity replaces diversity. In an increasing number of industries, it is no longer meaningful to talk about "the German market," "the American market," "the Brazilian market," or "the Japanese market"; for many firms, there is only the global market.

THE GLOBALIZATION OF PRODUCTION

The **globalization of production** refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of **factors of production** (such as labor, energy, land, and capital). By doing this, companies hope to lower their overall cost structure or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively. For example, Boeing has made extensive use of outsourcing to foreign suppliers. Consider Boeing's 777: eight Japanese suppliers make parts for the fuselage, doors, and wings; a supplier in Singapore makes the doors for the nose landing gear; three suppliers in Italy manufacture wing flaps; and so on.[8] In total, some 30 percent of the 777, by value, is built by foreign companies. And, for its most recent jet airliner, the 787, Boeing has pushed this trend even further; some 65 percent of the total value of the aircraft is outsourced to foreign companies, 35 percent of which goes to three major Japanese companies.

Part of Boeing's rationale for outsourcing so much production to foreign suppliers is that these suppliers are the best in the world at their particular activity. A global web of suppliers yields a better final product, which enhances the chances of Boeing winning a greater share of total orders for aircraft than its global rival, Airbus. Boeing also outsources some production to foreign countries to increase the chance that it will win significant orders from airlines based in that country. For a more detailed look at the globalization of production at Boeing, see the accompanying Management Focus.

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Early outsourcing efforts were primarily confined to manufacturing activities, such as those undertaken by Boeing and Apple. Increasingly, however, companies are taking advantage of modern communications technology, particularly the Internet, to outsource service activities to low-cost producers in other nations. The Internet has allowed hospitals to outsource some radiology work to India, where images from MRI scans and the like are read at night while U.S. physicians sleep; the results are ready for them in the morning. Many software companies, including Microsoft, now use Indian engineers to perform test functions on software designed in the United States. The time difference allows Indian engineers to run debugging tests on software written in the United States when U.S. engineers sleep, transmitting the corrected code back to the United States over secure Internet connections so it is ready for U.S. engineers to work on the following day. Dispersing value-creation activities in this way can compress the time and lower the costs required to develop new software programs. Other companies, from computer makers to banks, are outsourcing customer service functions, such as customer call centers, to developing nations where labor is cheaper. In another example from health care, workers in the Philippines transcribe American medical files (such as audio files from doctors seeking approval from insurance companies for performing a procedure). Some estimates suggest the outsourcing of many administrative procedures in health care, such as customer service and claims processing, could reduce health care costs in America by more than $100 billion.

The economist Robert Reich has argued that as a consequence of the trend exemplified by companies such as Boeing, Apple, and Microsoft, in many cases it is becoming irrelevant to talk about American products, Japanese products, German products, or Korean products. Increasingly, according to Reich, the outsourcing of productive activities to different suppliers results in the creation of products that are global in nature, that is, "global products."[9] But as with the globalization of markets, companies must be careful not to push the globalization of production too far. As we will see in later chapters, substantial impediments still make it difficult for firms to achieve the optimal dispersion of their productive activities to locations around the globe. These impediments include formal and informal barriers to trade between countries, barriers to foreign direct investment, transportation costs, issues associated with economic and political risk, and the sheer managerial challenge of coordinating a globally dispersed supply chain (an issue for Boeing with the 787 Dreamliner, as discussed in the Management Focus). For example, government regulations ultimately limit the ability of hospitals to outsource the process of interpreting MRI scans to developing nations where radiologists are cheaper.

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Boeing's Global Production System

Executives at the Boeing Corporation, America's largest exporter, say that building a large commercial jet aircraft like the 787 Dreamliner involves bringing together more than a million parts in flying formation. Forty-five years ago, when the early models of Boeing's venerable 737 and 747 jets were rolling off the company's Seattle-area production lines, foreign suppliers accounted for only 5 percent of those parts on average. Boeing was vertically integrated and manufactured many of the major components that went into the planes. The largest parts produced by outside suppliers were the jet engines, where two of the three suppliers were American companies. The lone foreign engine manufacturer was the British company Rolls-Royce.

Fast-forward to the modern era, and things look very different. In the case of its latest aircraft, the super-efficient 787 Dreamliner, 50 outside suppliers spread around the world account for 65 percent of the value of the aircraft. Italian firm Alenia Aeronautica makes the center fuselage and horizontal stabilizer. Kawasaki of Japan makes part of the forward fuselage and the fixed trailing edge of the wing. French firm Messier-Dowty makes the aircraft's landing gear. German firm Diehl Luftahrt Elektronik supplies the main cabin lighting. Sweden's Saab Aerostructures makes the access doors. Japanese company Jamco makes parts for the lavatories, flight deck interiors, and galleys. Mitsubishi Heavy Industries of Japan makes the wings. KAA of Korea makes the wing tips. And so on.

Why the change? One reason is that 80 percent of Boeing's customers are foreign airlines, and to sell into those nations, it often helps to be giving business to those nations. The trend started in 1974 when Mitsubishi of Japan was given contracts to produce inboard wing flaps for the 747. The Japanese reciprocated by placing big orders for Boeing jets. A second rationale was to disperse component part production to those suppliers who are the best in the world at their particular activity. Over the years, for example, Mitsubishi has acquired considerable expertise in the manufacture of wings, so it was logical for Boeing to use Mitsubishi to make the wings for the 787. Similarly, the 787 is the first commercial jet aircraft to be made almost entirely out of carbon fiber, so Boeing tapped Japan's Toray Industries, a world-class expert in sturdy but light carbon-fiber composites, to supply materials for the fuselage. A third reason for the extensive outsourcing on the 787 was that Boeing wanted to unburden itself of some of the risks and costs associated with developing production facilities for the 787. By outsourcing, it pushed some of those risks and costs onto suppliers, who had to undertake major investments in capacity to ramp up to produce for the 787.

So what did Boeing retain for itself? Engineering design, marketing and sales, and final assembly are done at its Everett plant north of Seattle, all activities where Boeing maintains it is the best in the world. Of major component parts, Boeing made only the tail fin and wing to body fairing (which attaches the wings to the fuselage of the plane). Everything else was outsourced.

As the 787 moved through development, it became clear that Boeing had pushed the outsourcing paradigm too far. Coordinating a globally dispersed production system this extensive turned out to be very challenging. Parts turned up late, some parts didn't "snap together" the way Boeing had envisioned, and several suppliers ran into engineering problems that slowed down the entire production process. As a consequence, the date for delivery of the first jet was pushed back more than four years, and Boeing had to take millions of dollars in penalties for late deliveries. The problems at one supplier, Vought Aircraft in North Carolina, were so severe that Boeing ultimately agreed to acquire the company and bring its production in-house. Vought was co-owned by Alenia of Italy and made parts of the main fuselage.

There are now signs that Boeing is rethinking some of its global outsourcing policy. For its next jet, a new version of its popular wide-bodied 777 jet, the 777X, which will use the same carbon-fiber technology as the 787, Boeing will bring wing production back in-house. Mitsubishi and Kawasaki of Japan produce much of the wing structure for the 787 and for the original version of the 777. However, recently Japan's airlines have been placing large orders with Airbus, breaking with their traditional allegiance to Boeing. This seems to have given Boeing an opening to bring wing production back in-house. Boeing executives also note that Boeing has lost much of its expertise in wing production over the last 20 years due to outsourcing, and bringing it back in-house for new carbon-fiber wings might enable Boeing to regain these important core skills and strengthen the company's competitive position.

Sources: M. Ehrenfreund, "The Economic Reality Behind the Boeing Plane Trump Showed Off," *The Washington Post,* February 17, 2017; K. Epstein and J. Crown, "Globalization Bites Boeing," *Bloomberg Businessweek,* March 12, 2008; H. Mallick, "Out of Control Outsourcing Ruined Boeing's Beautiful Dreamliner," *The Star,* February 25, 2013; P. Kavilanz, "Dreamliner: Where in the World Its Parts Come From," *CNN Money,* January 18, 2013; S. Dubois, "Boeing's Dreamliner Mess: Simply Inevitable?" *CNN Money,* January 22, 2013; A. Scott and T. Kelly, "Boeing's Loss of a $9.5 Billion Deal Could Bring Jobs Back to the U.S.," *Business Insider,* October 14, 2013.