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FIFTEENTH EDITION

# INTERNATIONAL BUSINESS

## ENVIRONMENTS AND OPERATIONS

 Pearson

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# International Business

Environments and Operations

Fifteenth Edition

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Environments and Operations

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# Preface

*This textbook is one of the best-selling international business textbooks in both the United States and the rest of the world. Widely used in both undergraduate and MBA level courses, this text has had authorized translations into Spanish, Chinese, Thai, and Russian, and it will soon be in Albanian, Korean, and Macedonian as well. This textbook set the global standard for studying the environments and operations of international business. The elements of success that have driven this performance anchor our efforts to make this edition the best version yet. We believe these efforts result in a textbook that provides you and your students the best possible understanding of what is happening and is likely to happen in the world of business.*

## **AUTHORITATIVE, RELEVANT, CURRENT**

Students, faculty, and managers praise this book for its compelling balance between rigorous, authoritative theory and meaningful practice within the context of a fresh, current analysis of the international business environment. Indeed, this book not only describes the ideas of international business but also uses contemporary examples, scenarios, and cases to make sense of what managers do and should do. We include multiple insights and real-world examples, which we base on our research, discussions with managers and other stakeholders, opinions of students and professors, and observations from traveling the world. Since 2010, the authors have traveled individually to more than 45 countries, only a few of which overlapped. We traveled to every region and nearly every continent, which provided significant insights we were able to use in this edition. We believe no other textbook comes close to successfully blending a comprehensive review of international business theory with exhaustive attention to what happens in the many parts of the global market. We are confident that this new edition, by making international business ideas and practices more meaningful than ever before, will give students a comprehensive, current view of international business in the twenty-first century.

## **RELEVANT MATERIALS THAT ENGAGE STUDENTS**

### **AUTHOR-WRITTEN CASES**

An enduring strength of this text is its in-depth case profiles of cutting-edge issues in international business. This edition introduces new cases and updates and revises the remaining. All 40 cases are unique and, with few exceptions, are personally researched and written by the text's authors. As such, we believe they set the standard for integration of theory and practice in an international business textbook on the following three levels:

1. *Level of Analysis:* Cases engage an extensive range of topics from environmental, institutional, country, industry, company, and individual perspectives. No one perspective dominates; all are represented and, hence, create a meaningful representation of the world of international business.
2. *Scope of Geographic Coverage:* Cases cover topics in settings that span the globe; no region is unaddressed, no major market is neglected.

3. *Scope of Company Coverage*: Cases look at various issues from a range of company perspectives, notably companies headquartered in all regions of the world, from large MNEs to small exporters, from old-line manufacturers to emergent cyber businesses, from companies that make products to those that deliver services.

**Opening Case** Each chapter starts with a provocative case written to set the stage for the major issues covered in the chapter. Designed to grab the student's attention, these cases look at fascinating issues in a way that makes students want to understand the ideas and concepts of international business. These cases, by variously taking the point of view of individuals, companies, governments, and institutions, give a great sense of the richness of the ensuing chapter. Material from the opening cases is then integrated with chapter discussions that we highlight in the text.

**Closing Case** Each chapter closes with a rich, elaborate case that integrates the ideas and tools presented in the chapter. The closing cases aim to put the student into a situation that asks, given certain circumstances, what should be done. Called on to analyze issues and decisions for which the chapter prepares them, students can then grapple with many of the opportunities and challenges of international business.

## NEW CASES IN THIS EDITION

We have extensively updated *all* the cases from the previous edition so that students will find them relevant and rigorous. In addition, we have included several entirely new cases:

- Chapter 2: Tesco PLC: Leveraging Global Knowledge
- Chapter 4: The BRICs: Vanguard of the Revolution
- Chapter 12: Strategy in the Multinational Enterprise of the Future: Forecasts and Scenarios
- Chapter 15: Meliá Hotels International
- Chapter 18: Apple's Global Supply Chain
- Chapter 19: H&M: The Challenges of Global Expansion and the Move to Adopt International Financial Reporting Standards

## LOOKING TO THE FUTURE

Each chapter offers future scenarios that are important to managers, companies, or the world. The topic of each *Looking to the Future* feature alludes to ideas discussed in the chapter in a way that prompts students to engage their imagination about the future of the world.

## POINT-COUNTERPOINT

To reinforce our strong applications orientation, we have included a separate feature in every chapter that brings to life a major debate in contemporary international business and globalization. We use a point-counterpoint style to highlight the diversity of perspectives that managers and policymakers use to make sense of vital issues.

The give-and-take between two sides reinforces this textbook's effort to link theory and practice in ways that will undoubtedly energize class discussion.

## **GEOGRAPHY AND INTERNATIONAL BUSINESS**

In appropriate chapters, we have included "Does Geography Matter?" sections. Some of the geographic variables we include to help explain the chapters' content are country location, location of population and population segments within countries, natural resources and barriers, climate, natural disasters, and country size.

## **NEW TOPICS AND CHAPTER CHANGES**

Although it is a tired cliché, every instructor of international business knows the world is changing in many and often unpredictable ways. We wake up to the same challenges you do, trying to make sense of what we read, hear, and see in the global press. Our effort to make sense of this leads to an unconditional effort to improve and update the text to reflect the latest knowledge and practice of international business. Most notably, among the many changes in this edition are the following:

### **PART ONE: BACKGROUND FOR INTERNATIONAL BUSINESS**

- Updated opening case, such as including the cost and company sponsorship of the London Summer Olympics (Chapter 1)
- Brought in new examples of determining product origins because of their mixed composition, such as the example of Swiss chocolate (Chapter 1)
- Extended discussion of economic uncertainties (oil prices and economic recession), especially as they affect the value of international trade and investment (Chapter 1)
- Explained how countries' sizes influence their degree of globalization (Chapter 1)
- Introduced the concept of inshoring (Chapter 1)
- Presented example of how border cooperation enhances efficiency, e.g. dam between Brazil and Paraguay, and how lack of standards create inefficiencies, e.g. trans-European rail service (Chapter 1)
- Illustrated global economic cooperation with example of G-20 countries (Chapter 1)
- Introduced additional downsides of offshoring, such as the loss of higher skilled jobs and the possible inattention to process techniques when relying on cheap labor (Chapter 1)
- Illustrated job shifts because of technology with example of airline cockpit crews (Chapter 1)
- Revised the ending case, such as by inclusion of recent cruise line safety and mechanical problems (Chapter 1)

### **PART TWO: COMPARATIVE ENVIRONMENTAL FRAMEWORKS**

- Updated the opening case on Saudi Arabia, such as with illustrations of women's changing roles in the work force, Olympics participation, and possible changes in driving prohibitions (Chapter 2)

- Emphasized the advantages and problems of using multi-cultural teams (Chapter 2)
- Introduced the concept of deal-focused versus relationship-focused societies (Chapter 2)
- Discussed the growth of bicultural and multicultural individuals (Chapter 2)
- Expanded the coverage of laws to include underutilized societal groups, such as women on European boards, ethnic work quotas in Malaysia, and university racial quotas in Brazil (Chapter 2)
- Used Korea to show strain of using needed foreign workers while maintaining traditional cultural values (Chapter 2)
- Illustrated how poor translations affect business with example of Chinese contracts with foreign companies (Chapter 2)
- Showed how ethnic conflict may lead to the dissolution of the United Kingdom and Spain as we know them today (Chapter 2)
- Included a new closing case on Tesco that discusses how the company used multicultural teams to transfer knowledge among countries (Chapter 2)
- Expanded profile of the importance of the political system; particular attention paid to implication of political affairs in Russia (Chapter 3)
- Streamlined discussion of collectivism and individualism; greater emphasis given to their implication to the business environment (Chapter 3)
- Revised profile of political freedom and its implication to rights of individuals and organizations (Chapter 3)
- Detailed update of trends in political ideologies, the play of long-run trends in recent developments and circumstances (Chapter 3)
- Expanded coverage of democracy and totalitarianism within the context of changing degrees of political freedom (Chapter 3)
- Updated profile of the drivers of the recession retreat of democracy; profile of current assessments as provided by Freedom House as *Economist Intelligence Unit* (Chapter 3)
- Updated profile of the drivers of the surge in totalitarianism (Chapter 3)
- Revised interpretation of the implication of political ideological change and MNEs' actions (Chapter 3)
- Streamlined discussion of political risk; reset table to better represent classes and characteristics of political risk (Chapter 3)
- Updated developments in the legal environment; greater emphasis given to business implications of legal change (Chapter 3)
- Profiled ongoing trends in the basis of rule, highlighting the scale and scope of the rule of law versus the rule of man (Chapter 3)
- Streamlined discussion of the interaction of the basis of rule and the practice of democracy worldwide (Chapter 3)
- Reported latest World Bank data on the ease of doing business worldwide; particular attention paid to critical startup, operational, and shutdown activities (Chapter 3)
- Streamlined discussion of the strategic implications of legal environments to the activities of MNEs; particular attention directed toward the ongoing play of intellectual property specification and protection in established versus emerging economies (Chapter 3)

- New section developed to better present the basis for political and legal differences among countries. Provides students a systematic profile of the basis for cross-national differentiation. New section highlights the potential for cross-national convergence in political and legal outlooks and orientations (Chapter 3)
- Updated case profile of intellectual property violation and counterfeiting in the world today; reset case to highlight economic, political, and social dynamics of counterfeiting and intellectual property piracy; emphasized angles of political and legal ambiguity that reflect location effects. Data points updated to report most recent statistics (Chapter 3)
- Updated and expanded opening case, emphasizing the ongoing and accelerating comeback of emerging economies and its growing scope of implication to Western economies (Chapter 4)
- Contextualized discussion of economic trends and anomalies that shape the perspectives brought to bear to assess the performance and potential of international markets; designed to illustrate that systematic principles guide assessment of differentiated markets (Chapter 4)
- Streamlined specification of key assumptions anchoring international market analysis (Chapter 4)
- Updated assessment of ice melt rates in the Arctic ice cap and their implication to economic development (Chapter 4)
- Revised discussion of the centrality of economic freedom in international market analysis; precise specification of components of economic freedom (Chapter 4)
- Revised discussion of the current state of economic freedom and predominant trends (Chapter 4)
- Assessment of the concerns and constraints that motivate national governments to reduce individuals' economic freedom (Chapter 4)
- Revised presentation of materials profiling types of economic systems (Chapter 4)
- Updated assessment of the scale and scope of state capitalism; direct evaluation of the ongoing debate regarding whether state capitalism is a detour or destination for established and emerging markets (Chapter 4)
- Summary discussion in chart profiling various specifications of emerging economy clusters (Chapter 4)
- Expanded discussion of broader conceptions of economic performance and potential, with additional emphasis given toward measures of sustainability—most notably Net National Product, Genuine Progress Indicator, and Human Development Index—and stability, most notably Your Better Life Index, Gross National Happiness, and Happy Planet (Chapter 4)
- Stronger connections drawn between economic performance and national potential (Chapter 4)
- Streamlining of the Point-Counterpoint, "Growth: Positive and Productive?" to more directly stress test the comparative benefits and costs of growth (Chapter 4)
- Revised coverage of key components of economic analysis, with particular attention given to include inflation, unemployment, debt, income distribution, poverty, and the balance of payments (Chapter 4)
- Expanded coverage of the base-of-the-pyramid concept as well as discussion of the multidimensionality of poverty (Chapter 4)



- Addition of section to discuss the explanatory usefulness of global indices to evaluate the economic potential of international markets; particular attention given to the Global Competitiveness, World Competitiveness, Global Innovation, and the Where to Be Born Indices (Chapter 4)
- Reference throughout chapter evolving implication of global credit crisis, particularly in Western economies (Chapter 4)
- Addition of new case that evaluates trends, opportunities and constraints in the BRIC markets with an overt sensitivity of the relevance of those markets to fellow emerging economies (Chapter 4)
- Updated statistics throughout chapter (Chapter 4)

### **PART THREE: THEORIES AND INSTITUTIONS:**

#### **TRADE AND INVESTMENT**

- Updated trade and demographic figures for both the opening case on Costa Rican trade and the closing case on Ecuadoran rose exports (Chapter 5)
- Brought in the recent upsurge in trade among developing countries, mainly due to Chinese and Indian demand for raw materials (Chapter 5)
- Added a map comparing U.S. states' GDPs with those of countries to demonstrate why the U.S. is a major trader with a low dependence on foreign trade (Chapter 5)
- Compared homogeneous and differentiated products in terms of the importance of distance in explanation of countries' trading partners (Chapter 5)
- Included new map showing recent major destinations of immigration (Chapter 5)
- Brought in new examples of technology that is causing shifts in global trade patterns, such as robots with cameras that displace agricultural pickers and fracking for natural gas that displaces petroleum trade (Chapter 5)
- Discussed the effect of ethnic networks on trade patterns (Chapter 5)
- Updated the opening case on U.S.–Vietnamese disputes on catfish trade, such as with later figures and the 2012 U.S. repeal on inspections of Vietnamese catfish (Chapter 6)
- Replaced old with recent export restrictions to maintain domestic supplies (Chapter 6)
- Brought in the effect on workers in exporting countries when importing countries impose an optimum tariff (Chapter 6)
- Introduced the Committee on Foreign Investment in the United States (CFIUS) (Chapter 6)
- Augmented discussion of trade sanctions with examples of recent trade bans with Iran (Chapter 6)
- Discussed the problem and documentation needed to explain a product's origin, such as with imports when animals were born in one country, raised in a second one, and slaughtered in a third (Chapter 6)
- Showed how the image of a country's products changes when some of its exported products are rejected for health or safety reasons (Chapter 6)
- Updated the U.S.–Cuban trade case, such as with new figures and the 2012 permit of U.S. exports to Cuba of humanitarian goods (Chapter 6)

- Updated the Toyota case to reflect its expansion into Europe, and revised the Walmart case to reflect its expansion into Central America and the consolidation of its regional operations with its Mexican operations (Chapter 7)
- Focus on the importance of bilateral and regional trade agreements at the expense of program on WTO talks, especially on the Doha Round (Chapter 7)
- Updated the progress in different regional trade agreements and introduced new talks between the U.S. and the EU (Chapter 7)
- Included the addition of Croatia to the EU in 2013, an updated status of other expansion moves in the EU, and the importance of the Schengen Area and monetary union (the Euro) as two important areas of focus in Europe (Chapter 7)
- Update of the differences between the EU and NAFTA regarding rules of origin (Chapter 7)
- Added a discussion of new regional agreements being discussed in Latin America (UNASUR) and Asia (the Trans-Pacific Partnership) (Chapter 7)

#### **PART FOUR: WORLD FINANCIAL ENVIRONMENT**

- Revised opening case to include information on sources and destinations of migration as well as the role of remittances of foreign workers in Dubai (Chapter 8)
- Update of players on the foreign-exchange market to demonstrate the changes that have occurred (Chapter 8)
- Updated size, composition, and location of the foreign-exchange market according to the latest BIS survey (Chapter 8)
- Updated the end-of-chapter case on China's revaluation of the yuan and how China is gradually opening up the market for trading yuan and using Hong Kong as a place to test changes in the role of the yuan in the global financial system (Chapter 8)
- New information on the global financial crisis as it expanded in 2012–2013 and especially the challenges in Europe (Chapter 9)
- Update of exchange rate agreements to fit with the new definitions (Chapter 9)
- Discussion of the Greek financial crisis and its spread to other southern European countries and the efforts of the European Union to find a resolution (Chapter 9)
- Updated the closing case to reflect the falling value of the yen in the fall of 2012 after several quarters of sustained rise in the value of the yen against the dollar and its impact on Sony's competitive position (Chapter 9)
- Added a new Chapter 10 on global capital markets to strengthen PART FOUR: The World Financial Environment (Chapter 10)
- Updated the opening case to discuss the expansion of GPS into Europe and the challenges they face with new financial market regulations (Chapter 10)
- Updated data in Chapter 10 to reflect changes in the size of capital markets resulting from the drop in global equity values in the 2010–2012 period (Chapter 10)
- Included additional information on international tax issues and tax haven countries as a result of the global efforts to go after MNEs that are perceived as avoiding paying a fair share of taxes (Chapter 10)
- Updated the closing case on Prada's IPO in Hong Kong and why Asia is so important for the luxury goods market (Chapter 10)

## **PART FIVE: GLOBAL STRATEGY, STRUCTURE, AND IMPLEMENTATION**

- Moved the Chapter on Globalization and Society from PART TWO to PART FIVE due to the strategic emphasis on how firms relate to the broader society in which they operate (Chapter 11)
- Updated initiatives by the UN and EU to combat bribery as well as expanded coverage on U.S. anticorruption efforts (Chapter 11)
- Discussed the impact of the slowing global economy on the ability of countries to comply with the Kyoto Protocol and the slowdown in the progress of the Protocol to expand its coverage globally (Chapter 11)
- Added new examples of global sustainability initiatives by SMEs as well as larger MNEs (Chapter 11)
- Updated opening case profile of Zara for latest performance data and strategic moves; streamlined presentation of materials (Chapter 12)
- Revised discussion of drivers of industry change to better reflect contemporary examples in established and emerging markets (Chapter 12)
- Revised introduction given reviewers' comments to better anchor the concept of strategy in the international market (Chapter 12)
- Profile of key examples that link generic concepts of strategy and industry structure to the activities of MNEs (Chapter 12)
- Refined discussion of the cost leadership and differentiation strategy in international markets (Chapter 12)
- Streamlined specification of the value chain and anchored more directly within the context of global operations (Chapter 12)
- Reset discussion of the Industrial Organization perspective relative to ideas developed within the context of Great by Choice viewpoint (Chapter 12)
- Updated profile of key factors that shaped the configuration of value chains (Chapter 12)
- Reset graphics to better communicate the concept and components of the value chain (Chapter 12)
- Expanded discussion of force that shaped the configuration of value chains to reflect ongoing technological innovations (Chapter 12)
- Expanded discussion of configuration moderators to better capture the implication of labor demographics, dynamics, and costs (Chapter 12)
- Emphasized geographic aspects of strategy and international market by profiling the moderating effects of business clusters (Chapter 12)
- Added discussion of the lexicon of location perspectives to better interpret the configuration of value chains (Chapter 12)
- Added new Looking To The Future profile of the rise of robots and their potentially dramatic implications to the conception of value chain configuration and coordination
- Updated the profiles of Samsung and Sony, as an interactive scenario that illustrates the dynamic give-and-take of strategy and global markets (Chapter 12)
- Expanded profile of the dynamic of change in competitive competencies resulting implications to configuring and coordinating the value chain in international markets (Chapter 12)

- Updated and streamlined presentation of the pressures posed by global integration and local responsiveness in the conception of strategy and the configuration and coordination of value chains for international markets (Chapter 12)
- Broadened discussion of integration and responsiveness pressures to reflect predominant trends among emerging markets (Chapter 12)
- Reset discussion of the international, multi-domestic, global, and transnational strategies to reflect new ideas and revised principles introduced in preceding sections (Chapter 12)
- Revised summary chart to integrate and organize the key characteristics of the international, multi-domestic, global, and transnational strategies (Chapter 12)
- Added a new closing case that profiles forecast scenarios of the form and functionality of the future MNE and its implications to strategy (Chapter 12)
- Juxtaposed the opening and closing cases (Burger King and Carrefour) and updated figures and locations for both (Chapter 13)
- Bolstered discussion of company and country bargaining positions because of access to unique resources (Chapter 13)
- Enhanced discussion on lack of accuracy on countries' data, including how different methodologies lead to different results (e.g., Chinese 2012 GDP data) (Chapter 13)
- Examined the need to consider risks throughout the supply chain, including location of secondary suppliers (Chapter 13)
- Gave opposing thoughts of preferring versus avoiding countries with weak protections of intellectual property rights (Chapter 13)
- Added evidence that access to knowledge is enhanced by locating in knowledge-producing countries (Chapter 13)
- Included the factor of stress for people working in countries with violence (Chapter 13)
- Updated opening case on Burger King's international expansion to include its new entries into Morocco, Russia, and Slovenia (Chapter 13)
- Enriched discussion in opening case to better profile the opportunities and constraints posed by export options to small and medium-size enterprises (Chapter 14)
- Highlighted connection between international business activity and the steadily expanding scale and scope of export and import (Chapter 14)
- Revised sections regarding the characteristics and classes of exporters and differential export motivations (Chapter 14)
- Reset coverage of export development perspectives, emphasizing the sequential nature of the incremental internationalization viewpoint as well as the dynamism of the born global perspectives (Chapter 14)
- Applied data-driven analysis to evaluate the interaction between export development perspectives; evaluated the leading import and export part of the United States to stress test discussion (Chapter 14)
- Expanded discussion of the primary approaches to exporting (Chapter 14)
- Streamlined and updated discussion of the export of electronic waste (Chapter 14)
- Expanded sections on who importers are and why they import (Chapter 14)
- Expanded coverage of the pitfalls and problems that challenge importers and exporters; fortified discussion by tapping data analytics provided by various United States agencies (Chapter 14)

- Identification of key points of difficulty that complicate international trade; directly adopted the perspective of small and medium-sized enterprises (Chapter 14)
- Better organized discussion of the resources available to international traders; emphasized the growing scale and scope of technologies and their moderating influence on the decision to import and export (Chapter 14)
- Sharper specification of the theoretical components that anchor an export plan (Chapter 14)
- Updated profile of the technology of trade and its application to the potential and practice of export and import (Chapter 14)
- Further streamlined coverage of countertrade and its role as a facilitator of international trade (Chapter 14)
- Updated closing case to reflect contemporary developments (Chapter 14)
- Updated statistics throughout the chapter (Chapter 14)
- New opening case, map, and figures on Meliá Hotels International, a company using multiple operating modes for its international operations (Chapter 15)
- Enhanced coverage of market failure as a reason for using FDI as an operating mode (Chapter 15)
- Added Lenova's acquisition of IBM's PC division as example of cultural collision when combining managers from the two companies (Chapter 15)
- Brought in leasing as an alternative to FDI in foreign expansion (Chapter 15)
- Introduced the concept of coopetition (Chapter 15)
- Revamped discussion on how to divide compensation in collaborative arrangements (Chapter 15)
- Showed change in turnkey leadership because of growth in Chinese companies' operations (Chapter 15)
- Presented new example of equity alliance, e.g. management contract of Port of Antwerp with a port facility in India (Chapter 15)
- Illustrate how shift in a partner's product line emphasis puts strain on partnership arrangements, e.g. IBM with Toshiba (Chapter 15)
- Indicated how home market trust influences trust in foreign collaborations (Chapter 15)
- Indicated the resurgence in importance of conglomerates (Chapter 15)
- Updated the ending case on the oneworld Alliance, such as by discussing the complexity of the proposed merger between American Airlines and US Airways because of their membership in different airline alliances (Chapter 15)
- Streamlined opening case profile of Johnson & Johnson to directly reference elements of organization structure, systems, and culture that are discussed in the chapter (Chapter 16)
- Reset and updated discussion of macro environmental trends that influence contemporary interpretations of organizing the MNE (Chapter 16)
- Clarified discussion of classical and neoclassical structures to emphasize key points of form, functionality, overlap, and differentiation (Chapter 16)
- Updated company examples regarding adoption or abandonment of classical organization structures (Chapter 16)
- Structured discussion of neoclassical structures to reflect ongoing developments driven by technological innovation, behavioral economics, and virtuality (Chapter 16)

- Reset graphic representation of network structure to better communicate dimensions and dynamics (Chapter 16)
- Streamlined interpretation of coordination and control systems; developed richer explanations within the context of MNE's practices (Chapter 16)
- Broadened discussion of coordination systems to reflect changes precipitated by technological innovations and expanding interpersonal connectivity (Chapter 16)
- Fortified discussion of organization culture by strengthening connection between its outlook, forms, and functionality and the MNE's strategy (Chapter 16)
- Updated profile of the rise of corporate universities and their role in developing and sustaining organization in the MNE (Chapter 16)
- Streamlined profile of Infosys in the closing case to better highlight the role of its founding mission and enduring principles (Chapter 16)

## **PART SIX: MANAGING INTERNATIONAL OPERATIONS**

- Updated the opening case on Hilfiger, such as with newer operating figures and the company's use of Disney characters to promote its children's line (Chapter 17)
- Illustrated the use of global team members to develop more globally standardized products (Chapter 17)
- Enhanced discussion of companies' approaches to sell simultaneously to different income levels, such as Diageo's and SABMiller's sale of a cheaper beer in some African countries (Chapter 17)
- Gave new examples of standardized products aimed at a global niche, e.g. Red Bull and Ferrari (Chapter 17)
- Showed how companies can adapt their competencies to foreign markets, such as Hermès' use of its luxury silk competence to sell saris in India (Chapter 17)
- Added the importance of social media using Web 2.0 in word-of-mouth product acceptance (Chapter 17)
- Inserted new examples of brand name changes to better fit sounds, meaning, and visual acceptance in other languages (Chapter 17)
- Enhanced reasons for national differences in negotiating prices (Chapter 17)
- Mentioned new U.S. Supreme Court rulings permitting U.S. sales in the gray market (Chapter 17)
- Updated ending case on Grameen Danone Foods in Bangladesh, such as by showing newer demographics and recent sales growth (Chapter 17)
- Introduced a new case discussing Apple's Global Supply Chain (Chapter 18)
- Restructured the chapter on global supply chain to introduce the concepts of global sourcing at the beginning of the chapter (Chapter 18)
- New discussion on contract manufacturing as a way to source parts and final products (Chapter 18)
- Discussed the problems of a company like Apple using a supplier like Foxconn to manufacture high-end products in China and possibly losing control of intellectual property and creating a competitor (Chapter 18)
- Discussion of principles from *The World Is Flat* to illustrate offshoring, outsourcing, and supply-chaining and other ways information technology is changing global supply chains (Chapter 18)
- Consolidated material from Chapters 18 and 19 into one chapter on Global Accounting and Finance (Chapter 19)

- Updated the opening case to reflect how Parmalat has recovered from its corporate corruption scandal (Chapter 19)
- Updated trends in the convergence of accounting standards through IFRS and negotiations with the U.S. FASB and explained why it will be difficult, if not impossible, for the U.S. to adopt IFRS in place of U.S. GAAP (Chapter 19)
- Updated the differences in American and European responses to the adoption of IFRS (Chapter 19)
- Moved the discussion of global debt and equity markets to Chapter 10
- Focused on operational issues in international finance, such as capital budgeting, the internal flow of funds, and foreign exchange risk management (Chapter 19)
- Dropped the Ericsson case at the end of the chapter and added a new case on H&M's global strategy and how it is coping with IFRS for its financial statements (Chapter 19)
- Refined the idea of globalizing your career as reported in opening case; expanded the diversity of viewpoints on the usefulness, responsibilities, opportunities and costs of the expatriate experience (Chapter 20)
- Emphasized the growing connection between the MNE's success in planning its strategy and the quality of its HRM programs in general, its expatriate management in specific (Chapter 20)
- Profiled trends in expatriate processes given consequences of global financial crisis and the call to contain the escalating expenses (Chapter 20)
- Highlighted implications of the changing workplace and workforce of globalization to the use of third-country nationals, reverse expatriates, and different genders and demographics (Chapter 20)
- Revised discussion of the ethnocentric, polycentric, and geocentric approaches to expatriate staffing; adjusted discussion for changing interpersonal connectivity through unfolding technological innovations (Chapter 20)
- Streamlined discussion of the linkage of expatriate selection to the matters of professional and personal characteristics (Chapter 20)
- Expanded data that substantiate key competencies and key concerns of expatriates (Chapter 20)
- Profile of changing compensation patterns given globalization of compensation standards as well as growing pressures to economize (Chapter 20)
- Expanded and elaborated discussion of the role of English in the world of business, specifically testing the proposition that English is destined as the default language of the world (Chapter 20)
- Added section and table data profiling the scale and scope of various forms of language in the world (Chapter 20)
- Fuller explanation of the causes and consequences of expatriate failure; repositioned section to reflect reviewers' suggestions on chapter flow (Chapter 20)
- Expanded section on the evolving location mix of expatriate assignments, emphasizing the shift from established to emerging locations (Chapter 20)
- Updated coverage of the general characteristics and peculiar attributes of the Indian market; highlights the role they play in moderating the selection of the Indian country manager (Chapter 20)
- Enriched the presentation of material closing case by including fuller profiles of the candidates for the Indian country manager (Chapter 20)

## ENGAGING IN-TEXT LEARNING AIDS

We believe a powerful textbook must teach as well as present ideas. To that end, we use several in-text aids to make this book an effective learning tool. Most notably, each chapter uses all of the following features:

### CHAPTER OBJECTIVES AND SUMMARY

Each chapter begins with learning objectives and ends with a summary; both tie directly to the chapter material. This linkage helps students prepare for the major issues within each chapter and appreciate their general relationships, and reinforces the important lessons of the chapter material.

### CONCEPT LINKS

Throughout each chapter, as warranted by discussion in the corresponding text, we highlight in the margin how ideas from previous chapters link to the ideas being discussed. This cumulative series of concept links helps the student build an understanding of the connections among concepts across chapters. This feature also facilitates student understanding when instructors do not assign all chapters.

### CASE ICONS

Although all of our cases are primarily issue-oriented, new icons now enable easy identification of the focus of the chapter opening and closing cases. Know at a glance if a case is more focused on a specific country or on company or industry issues, or, when both icons are present, if it will provide both a country and company/industry focus. The identifying icons appear in both the extended table of contents and in the opening and closing cases within the chapters themselves.

### CASE LINKS

Another effort to help students better interpret the connections among ideas and practices is encompassed in our latest innovation. Specifically, as warranted by discussion in the corresponding text, we highlight with text shading and icons how those ideas being discussed elaborate ideas that were presented in the opening and closing cases of that chapter.

### KEY TERMS AND POINTS: BOLDING, MARGINAL NOTES, AND GLOSSARY

Every chapter highlights key terms; each key term is put in bold print when it first appears. Key learning points are also highlighted in the adjoining margin. These terms and others are then assembled in an end-of-chapter list and into a comprehensive glossary at the end of the book.



## CASE QUESTIONS

The opening and closing case of each chapter stipulates several questions to guide students in applying what they have learned in the chapter to the reality of international business. We have found in our classes that the questions at the end of the case go a long way toward putting the case into perspective for students. In addition, they make for great assignment activities, directing students to respond to questions with information presented in the specific case as well as the chapter. Select questions are also available as assisted graded writing prompts in MyManagementLab.

## POINT-COUNTERPOINT

This feature, as we have already discussed, is compelling not only for class discussion, but also for specific assignments. These assignments may include requiring students to take sides in debates or to apply arguments to specific countries.

## MAPS

Geographic literacy is essential in international business. Thus, we have not only included a map section between Chapters 1 and 2, but we incorporate maps throughout that show both locations and other information.

## INTERNATIONAL BUSINESS MINI-SIMULATIONS

Students can apply the concepts they've learned and exercise their decision-making skills in real-world scenarios via the online mini-simulations found in MyManagementLab. Created in collaboration with experts in the field, eight mini-simulations covering the following topics will be available for fall 2014 courses: Global Culture and Diversity, Management in a Global Environment, Organizational Structure, Globalization, International Ethics, Legal Differences, Outsourcing, and Tariffs, Subsidies, and Quotas. Sign into MyManagementLab.com or ask your Pearson representative for more information.

## CURRENCY AND READABILITY

We have always prided ourselves on being current in the research and examples we cite in the chapters. The 15th edition is no exception; in fact, we believe our coverage goes beyond that of any other IB text. If you examine the endnotes for any chapter, you will see that we include both classic and the most up-to-date materials from both scholarly treatises and the popular press. If you examine the list of companies in the "Company Index and Trademarks," you will see that our citations are numerous and include large and small firms from a variety of industries based in countries throughout the world. These citations illustrate to students the practical reality of the theories and alternative operations we describe.

We have made a special effort in this edition to improve the readability of the extensive materials we present. First, we make a point of putting authors' names (except for classics such as Adam Smith) only in the reference section rather than in the chapters' prose. We have simply seen too many students try to remember names

rather than concepts. Second, we have engaged a copy editor to improve the language and flow of materials.

## ABOUT THE INDIAN EDITION

The present edition of *International Business* is contemporary and futuristic in nature. This edition is better than the previous one. It includes both industry-based cases and firm level international business cases.

India is one of the fastest growing emerging economies, and a scholar of international business needs to know the dynamics of industry forces, firm strategy along with country advantages and global forces. It also includes a detailed analysis of the Indian automobile sector, banking sector, consumer electronics, FMCG sector, and Indian insurance industry, and a special article on the government policy impact on industries.

The book also includes case studies on top Indian companies like Bharti Airtel, Havells, IndusInd Bank, Tata Motors, TCS, and Maruti Suzuki.

## INSTRUCTOR SUPPLEMENTS

Instructors can access downloadable supplemental resources by signing into the Instructor Resource Center at [www.pearsoned.co.in/JohnDDaniels](http://www.pearsoned.co.in/JohnDDaniels).

- **Instructor's Manual**
- **Test Item File**—over 100 questions per chapter, including multiple choice, true/false, short answer, and essays. The Test Item File includes questions that are tagged Learning Objectives, Learning Outcomes, and AACSB Learning Standards to help measure whether students are grasping the course content that aligns with AACSB guidelines.
- **PowerPoint Slides**

## ACKNOWLEDGMENTS

Every author relies on the comments, critiques, and insights of reviewers. It is a tough task that few choose to support. Therefore, we want to thank the following people for their insightful and helpful comments on the fourteenth edition of *International Business: Environments and Operations*, which helped guide us in preparing the fifteenth edition.

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In addition, we have been fortunate since the first edition to have colleagues who have been willing to make the effort to critique draft materials, react to coverage

already in print, advise on suggested changes, and send items to be corrected. Because this is the culmination of several previous editions, we would like to acknowledge everyone's efforts. However, many more individuals than we can possibly list have helped us. To those who must remain anonymous, we offer our sincere thanks.

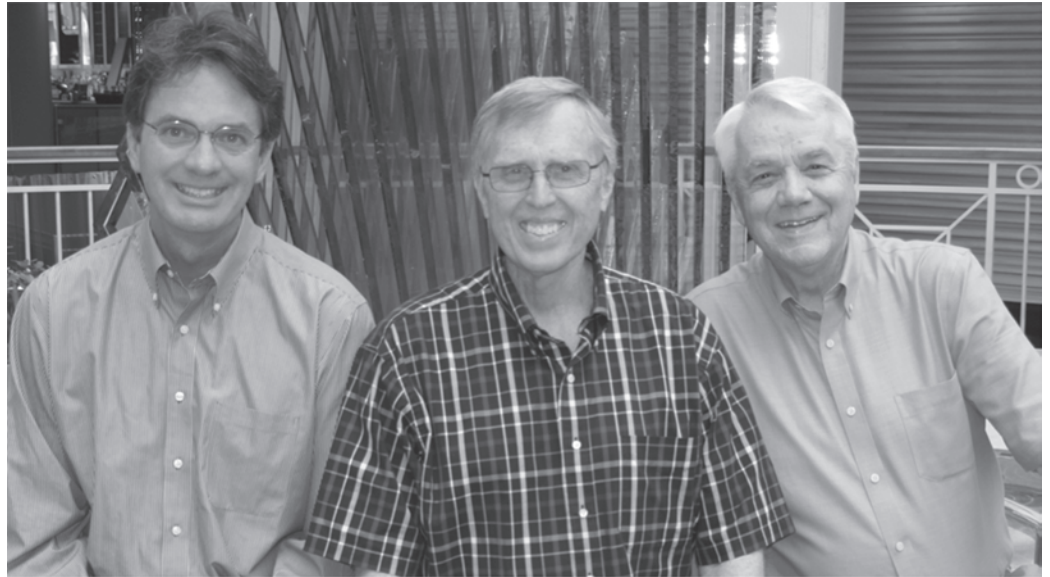
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It takes a dedicated group of individuals to take a textbook from first draft to final manuscript. We would like to thank our partners at Pearson for their tireless efforts in bringing the fifteenth edition of this book to fruition.

## **PUBLISHER'S ACKNOWLEDGEMENT**

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# About the Authors



**From left to right: Daniel Sullivan, Lee Radebaugh, John Daniels**

*Three respected and renowned scholars show your students how dynamic, how real, how interesting, and how important the study of international business can be.*

**John D. Daniels**, the Samuel N. Friedland Chair of Executive Management emeritus at the University of Miami, received his Ph.D. at the University of Michigan. His dissertation won first place in the award competition of the Academy of International Business. Since then, he has been an active researcher and won a decade award from the *Journal of International Business Studies*. His articles have appeared in such leading journals as *Academy of Management Journal*, *Advances in International Marketing*, *California Management Review*, *Columbia Journal of World Business*, *International Marketing Review*, *International Trade Journal*, *Journal of Business Research*, *Journal of High Technology Management Research*, *Journal of International Business Studies*, *Management International Review*, *Multinational Business Review*, *Strategic Management Journal*, *Transnational Corporations*, and *Weltwirtschaftliches Archiv*. Professor Daniels has published 15 books, most recently *Multinational Enterprises and the Changing World Economy* (coedited with Ray Loveridge, Tsai-Mei Lin, and Alan M. Rugman), three volumes on *Multinational Enterprise Theory*, and three volumes on *International Business and Globalization* (all co-edited with Jeffrey Krug). On its 30th anniversary, *Management International Review* referred to him as “one of the most prolific American IB scholars.” He served as president of the Academy of International Business and dean of its Fellows. He also served as chairperson of the international division of the Academy of Management, which named him Outstanding Educator of the Year in 2010. Professor Daniels has worked and lived a year or longer in seven different countries, worked shorter stints in approximately 30 other countries on six continents, and traveled in many more. His foreign work has been a combination of private sector, governmental, teaching, and research assignments. He was formerly

a faculty member at Georgia State University and The Pennsylvania State University, director of the Center for International Business Education and Research (CIBER) at Indiana University, and holder of the E. Claiborne Robins Distinguished Chair at the University of Richmond.

**Lee H. Radebaugh** is the emeritus Kay and Yvonne Whitmore Professor of International Business and former Director of the Whitmore Global Management Center/CIBER at Brigham Young University. He received his M.B.A. and doctorate from Indiana University. He was a faculty member at The Pennsylvania State University from 1972 to 1980. He also has been a visiting professor at Escuela de Administracion de Negocios para Graduados (ESAN) in Lima, Peru. In 1985, Professor Radebaugh was the James Cusator Wards visiting professor at Glasgow University, Scotland. His other books include *International Accounting and Multinational Enterprises* (John Wiley and Sons, 6th edition) with S. J. Gray and Erv Black; *Introduction to Business: International Dimensions* (South-Western Publishing Company) with John D. Daniels; and seven books on Canada-U.S. trade and investment relations, with Earl Fry as co-editor. He has also published several other monographs and articles on international business and international accounting in journals such as the *Journal of Accounting Research*, *Journal of International Financial Management and Accounting*, *Journal of International Business Studies*, and the *International Journal of Accounting*. He is the former editor of the *Journal of International Accounting Research* and area editor of the *Journal of International Business Studies*. His primary teaching interests are international business and international accounting. Professor Radebaugh is an active member of the American Accounting Association, the European Accounting Association, the International Association of Accounting Education and Research, and the Academy of International Business, having served on several committees as the president of the International Section of the AAA and as the secretary treasurer of the AIB. He is a member of the Fellows of the Academy of International Business. He is also active with the local business community as past president of the World Trade Association of Utah and member of the District Export Council. In 2007, Professor Radebaugh received the Outstanding International Accounting Service Award of the International Accounting Section of the American Accounting Association, and in 1998, he was named International Person of the Year in the state of Utah and Outstanding International Educator of the International Section of the American Accounting Association. In 2012, Lee was honored when the award for the top article published in the *Journal of International Accounting Research* in the past decade was named the Lee H. Radebaugh Notable Contribution to International Accounting Research.

**Daniel P. Sullivan**, Professor of International Business at the Alfred Lerner College of Business of the University of Delaware, received his Ph.D. from the University of South Carolina. He researches a range of topics, including globalization and business, international management, global strategy, competitive analysis, and corporate governance. His work on these topics has been published in leading scholarly journals, including the *Journal of International Business Studies*, *Management International Review*, *Law and Society Review*, and *Academy of Management Journal*. In addition, he has served on the editorial boards of the *Journal of International Business Studies* and *Management International Review*. Professor Sullivan has been honored for both his research and teaching, receiving grants and winning awards for both activities while at the University of Delaware and, his former affiliation, the Freeman School of Tulane University. He has been awarded numerous teaching honors at the undergraduate,

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M.B.A., and E.M.B.A. levels—most notably, he has been voted Outstanding Teacher by the students of 17 different Executive M.B.A. classes at the University of Delaware and Tulane University. Professor Sullivan has taught, designed, and administered a range of graduate, undergraduate, and nondegree courses on topics spanning globalization and business, international business operations, international management, strategic perspectives, executive leadership, and corporate strategy. In the United States, he has delivered lectures and courses at several university sites and company facilities. In addition, he has led courses in several foreign countries, including China, Hong Kong, Bulgaria, the Czech Republic, France, South Korea, Switzerland, Taiwan, and the United Kingdom. Finally, he has worked with many managers and consulted with several multinational enterprises on issues of international business.

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# CHAPTER 1

## Globalization and International Business

### OBJECTIVES

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After studying this chapter, you should be able to

1. Define *globalization* and *international business* and explain how they affect each other
2. Grasp why companies engage in international business and why its growth has accelerated
3. Discuss globalization's future and the major criticisms of it
4. Illustrate the different ways a company can accomplish its global objectives
5. Recognize the need to apply social science disciplines to understand how international and domestic business differ

*The world's a stage; each plays his part, and takes his share.*

—Dutch proverb







## CASE

# The Globalized Business of Sports

Sports may be the most globalized legitimate business in the world.<sup>1</sup> Historically, most players and teams in most sports have competed only on their own home turf; today, however, fans demand to see the best, and “best” has become a global standard. Satellite TV brings live events from just about anywhere in the world to fans just about anywhere else. This gives the key players in the sports-promotion business—team owners, league representatives, and sports associations—broadened audience exposure, expanded fan bases, and augmented revenues, especially through advertising that cuts across national borders.

Nevertheless, competition among teams sponsored by national sports federations goes back more than a century, most notably the World Cup in football (soccer) and the Olympics. More national organizations participate in these events than there are countries in the United Nations. And probably more people follow these competitions than follow most of the goings-on at the UN. In fact, you were likely part of the record global television audience for at least some of the 2010 World Cup in South Africa and the 2012 Summer Olympics games in London. (The chapter’s opening photo shows Wenlock, the London games’ mascot, dressed as a Queen’s Guard. Hundreds of thousands of stuffed mascot toys were made in China and shipped to the games.)

How do these international competitions relate to business? Cities and countries compete to host the events in order to attract tourists and publicize to the world (especially potential investors) the opportunities that might exist for business. In turn, global companies pay for marketing rights as sponsors, such as the \$957 million paid by eleven companies for the London Olympics. For instance, Coca-Cola’s Facebook page enabled millions of Facebook visitors from dozens of countries to upload videos dealing with the games. Finally, individual athletes compete not only for medals, but also for lucrative contracts to endorse products. Michael Phelps’ swimming successes have led to contracts with Visa, Omega, Hilton, Procter & Gamble, Under Armour, Subway, and HP.

While the participation in the Olympics and the World Cup has long been global, the location of competition has been less so, largely because of the cost of staging the events. This is now changing. The 2010 World Cup was the first in Africa. The first South American Olympics is scheduled for Brazil in 2016, and the first Middle East World Cup is slated for Qatar in 2022.

## THE INTERNATIONAL JOB MARKET

Because more fans expect to see the world’s best teams and players, the search for talent has become worldwide. You can now find U.S. and European professional basketball scouts in remote areas of Nigeria looking for tall high-potential youngsters. Baseball agents have opened live-in training camps for teenagers in the Dominican Republic in exchange for a percentage of any of their future professional signing bonuses. Keep in mind, though, that assembling talent is necessary but insufficient for making a sports business successful. Shrewd marketing and financial management are crucial too. For instance, the Barcelona football club, arguably the best professional soccer team in recent years, has turned to young business graduates to help turn around its financial problems.

Most of today’s top-notch athletes are willing to follow the money wherever it may take them. For example, many of the best Brazilian soccer players are with European teams that offer much higher payrolls than their Brazilian counterparts. England’s professional soccer league (Premiership) includes players from about 70 countries, which helps improve the caliber of play and increase the TV fan base outside England.

## How the ATP Courts Worldwide Support

If you’re a fan of individual sports, you’ve probably noticed that players are globe hoppers. Take tennis. No single country boasts enough interested fans to keep players at home for year-round competition, yet today’s top-flight tennis pros come from every continent except Antarctica. For 2013, the Association of Tennis Professionals (ATP) sanctioned 64 tournaments in 31 countries. It also requires member pros to play in a certain number of events—and thus stop over in a number of countries—to maintain international rankings.

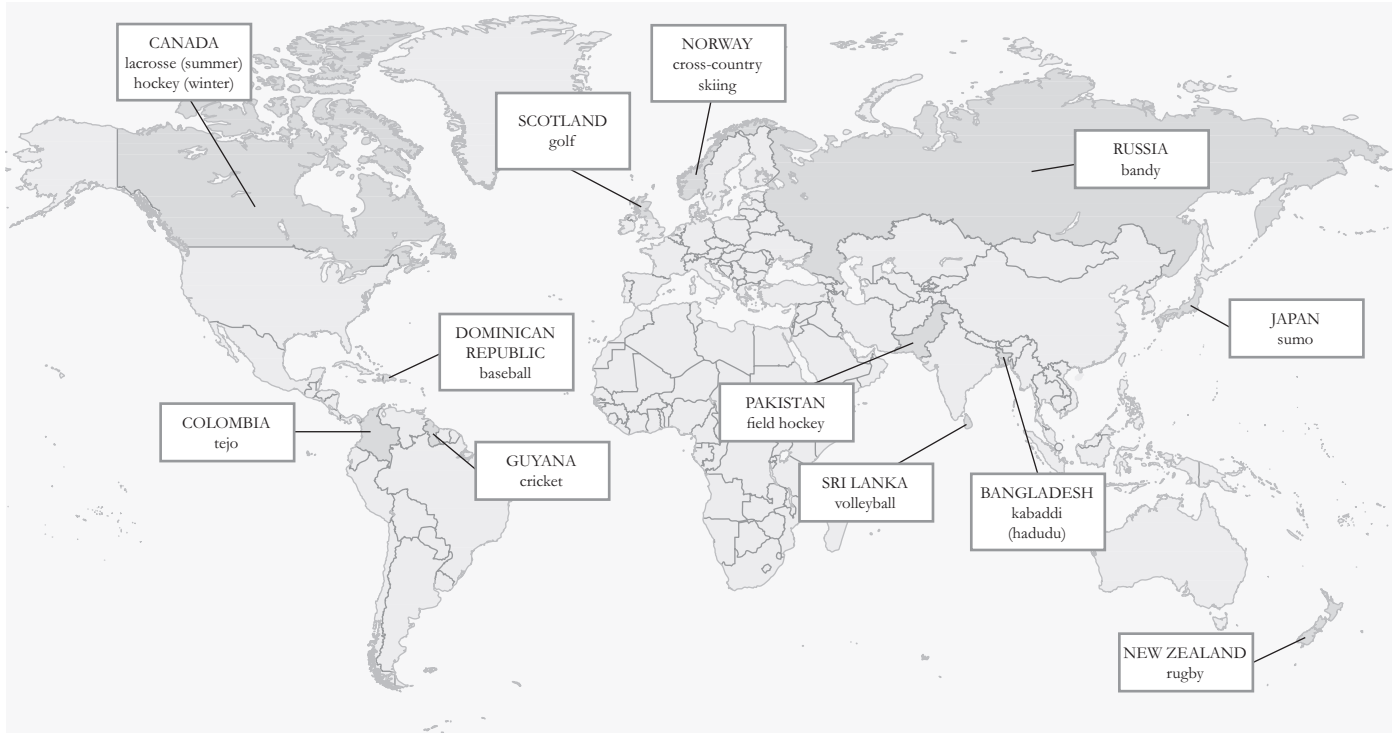
Because no tennis pro can possibly play in every tournament, organizers must attract enough top draws to fill stadium seats and land lucrative TV contracts. So tournaments compete for top-billed stars, not only with other tournaments but also with such regular international showcases as the Olympics and the Davis Cup. Prizes for two weeks’ worth of expert serving and volleying can be extremely generous (about US \$2.55 million for the 2013 singles champions of the Australian Open).

Remember, too, that tournaments earn money through ticket sales, corporate sponsorship agreements, television contracts, and leasing of advertising space. The more people in the stadium and TV audience, the more sponsors and

### MAP 1.1 Examples of National Sports

Some 33 countries have either defined a national sport by law or de facto have a national sport. Some national sports are shared by more than one country, such as cricket by six former British colonies in the Caribbean. Some others have been established to protect an historical heritage, such as tejo in Colombia. Note also that Canada has two designations, one for winter and one for summer.

Source: The information on sports was taken from Wikipedia, [http://en.wikipedia.org/wiki/National\\_sport](http://en.wikipedia.org/wiki/National_sport) (accessed January 30, 2013)



advertisers will pay to get their attention. Moreover, international broadcasts attract sponsorship from international companies. The partner and sponsor list for the 2013 Australian Open tennis tournament included a South Korean automaker (Kia), a Dutch brewer (Heineken), a Swiss watchmaker (Rolex), a French clothing company (Lacoste), and a U.S. sporting goods firm (Wilson). Such sponsorship of world-watched sporting events generally gets companies in a higher market growth rate.

### From National to International Sports Pastimes

Some countries have legally designated a national sport as a means of preserving traditions; others effectively have one. Map 1.1 shows a sample of these. However, other sports have sometimes replaced national sports in popularity, such as cricket replacing field hockey as India's most popular sport.

The International Baseball Federation now has over 100 member countries, even though baseball was popular only in its North American birthplace for most of its history. As TV revenues flattened in North America, Major League Baseball (MLB) began broadcasting games to international audiences. Increased exposure not only broadened the global fan base, it also showed youngsters all over the world how the game was played. As late as 1986, only 14 percent of MLB players were born outside the United States; by 2013, that number had climbed to over 28 percent. The average MLB clubhouse is now a bastion of multilingual camaraderie, with players and coaches talking baseball in Spanish, Japanese, Mandarin, and Korean as well as English.

### THE WIDE WORLD OF TELEVISED SPORTS

Not surprisingly, other professional sports groups have expanded their global TV coverage (and marketing programs). Most viewers of Stanley Cup hockey watch from outside North America. Fans watch NASCAR

races (National Association for Stock Car Auto Racing) in more than 120 countries and NBA games in about 200. If you lived in Tunisia and enjoyed simultaneous access to multiple TV channels, you could watch more hours of NBA action than there are hours in the year.

TV isn't the only means by which sports organizations are seeking foreign fan bases and players. The National Football League (NFL) of the United States underwrites football programs in Chinese schools and is playing some regular NFL games in Europe. The NBA has appointed a director of basketball operations for India to help build youth leagues there. With the growth of broadband, we'll soon enter the realm of thousand-channel TV, where we'll be able to tune into sporting events that currently appeal only to highly localized niche markets. How about Thai boxing or Japanese sumo wrestling?

### The Top-Notch Pro as Upscale Brand

Many top players are effectively global brands because of their sports success and usually because of good looks and pleasing personalities as well. Philippine boxer Manny Pacquiao, Russian tennis pro Maria Sharapova, Portuguese soccer forward Cristiano Ronaldo (he has over 50 million fans on Facebook), and U.S. basketball star LeBron James are so popular globally that companies within and outside the sports industry are willing to pay them millions of dollars for endorsing clothing, equipment, and other products.

### Promotion as Teamwork

A few teams, such as the New York Yankees in baseball, the New Zealand All Blacks in rugby, and Manchester United (Man U) in soccer also have enough brand-name cachet to be global brands for selling clothing and other items to fans around the world. Just about every team can get something for the rights to use its logo, while some have enough name recognition to support global chains of retail outlets. Similarly, companies both sponsor and seek endorsements from well-known teams. For instance, Nike, the U.S. sports shoes and apparel giant, has fought hard to become the top sportswear and equipment supplier to European soccer teams. The success of this campaign has stimulated Nike's international sales to become greater than those in the United States.

Many nonsports companies, such as Canon (cameras, office equipment), Sharp (consumer electronics), and Carlsberg (beer), sponsor teams mainly to get corporate logos emblazoned on uniforms. Still others, such as United Airlines in Chicago, pay for the naming rights to arenas and other venues. Of course, teams themselves can be attractive international investments. For instance, the owners of the Boston Red Sox baseball team (U.S.A.) bought the Liverpool Football Club of the United Kingdom.

### Sports and You

What does all this mean to you as a sports fan? Chances are you fantasized at one time about going pro in some sport, but you've probably given up that fantasy and settled into the role of spectator. Now that pro sports has become a global phenomenon (thanks to better communications), you can enjoy a greater variety—and a higher level of competition—than any generation before you.

That's the upside, but we must point out that people don't always take easily to another country's sport. Despite many efforts, cricket, although popular in countries that were British colonies for centuries, has never become popular elsewhere. (In post-colonial United States, it was popular, but it gradually gave way to baseball.) Nor has American football gained much popularity outside the United States. A former NFL lineman expressed a reason: that rules for cricket and American football are so complicated that one must learn them as children. However, basketball and soccer have traveled to new markets more readily because they are easier to understand and require no specialized equipment.

Further, there is disagreement about the economic effect of successfully winning a bid to host big international competitions such as the World Cup and Olympics. On the one hand, they help spur tourism, foreign investment, infrastructure construction, and improvement of blighted areas that will speed future economic growth. (The cost of building facilities for the 2012 London Olympics was

about \$15 billion.) On the other hand, in light of threats from global terrorism the cost of security has skyrocketed, while hosts may have to spend on stadiums and facilities that have no use afterward. Many competitions have ended with substantially increased local and national debt.

Nor is everyone happy with the unbridled globalization of sports—or at least with some of the effects. Brazilian soccer fans lament the loss of their best players, and French fans protested the purchase of the Paris Saint-Germain (PSG) football club by the Qatar Investment Authority. ■



## QUESTIONS

- 1-1. Professional athlete A is a star, and professional athlete B is an average player. How has the globalization of professional sports affected each of these both positively and negatively?
- 1-2. As you read the chapter, identify and show an example of each international mode of operations that is illustrated in the globalization of professional sports.

## INTRODUCTION

**Globalization** refers to the widening set of interdependent relationships among people from different parts of a world that happens to be divided into nations. The term sometimes refers to the elimination of barriers to international movements of goods, services, capital, technology, and people that influence the integration of world economies.<sup>2</sup> Throughout history, wider human connections have expanded people's access to more varied resources, products, services, and markets. We've altered the way we want and expect to live, and we've become more deeply affected (positively and negatively) by conditions outside our immediate domains.

The opening case shows how far-flung global contact allows the world's best sports talent to compete, and their fans to watch them, just about anywhere. Likewise, managers in almost every industry consider ever more distant places as sources of supplies and markets. As consumers we know from "Made in" labels that we commonly buy products from all over the world, but these labels do not tell us everything. So many different components, ingredients, and specialized business activities from different countries go into products that it's often a challenge to say exactly where they were made. Belgium is renowned for its chocolate, but a Belgian Neuhaus bonbon includes ingredients from the Ivory Coast, Philippines, Ecuador, São Tomé, and Venezuela.<sup>3</sup> Because Apple ships its iPhones from China, they appear to be Chinese products, but less than 4 percent of their value is created in China.<sup>4</sup>

## HOW DOES INTERNATIONAL BUSINESS FIT IN?

Globalization enables us to get more variety, better quality, or lower prices. Our daily meals contain spices that aren't grown domestically and fresh produce that's out of season in one local climate or another. Our cars cost less than they would if all the parts were made and the labor performed in one place. All of these connections between supplies and markets result from the activities of **international business**, defined as all commercial transactions, including sales, investments, and transportation, that take place between two or more countries. Private companies undertake such transactions for profit; governments may undertake them either for profit or for other reasons.

**The Study of International Business** Why should you study international business? Simply, it makes up a large and growing portion of the world's business. Global events and competition affect almost all companies, large and small, regardless of industry. They sell output and secure supplies and resources abroad, and they compete against products, services, and companies from foreign countries. Thus, most managers need to take into account

International business consists of all commercial transactions between two or more countries.

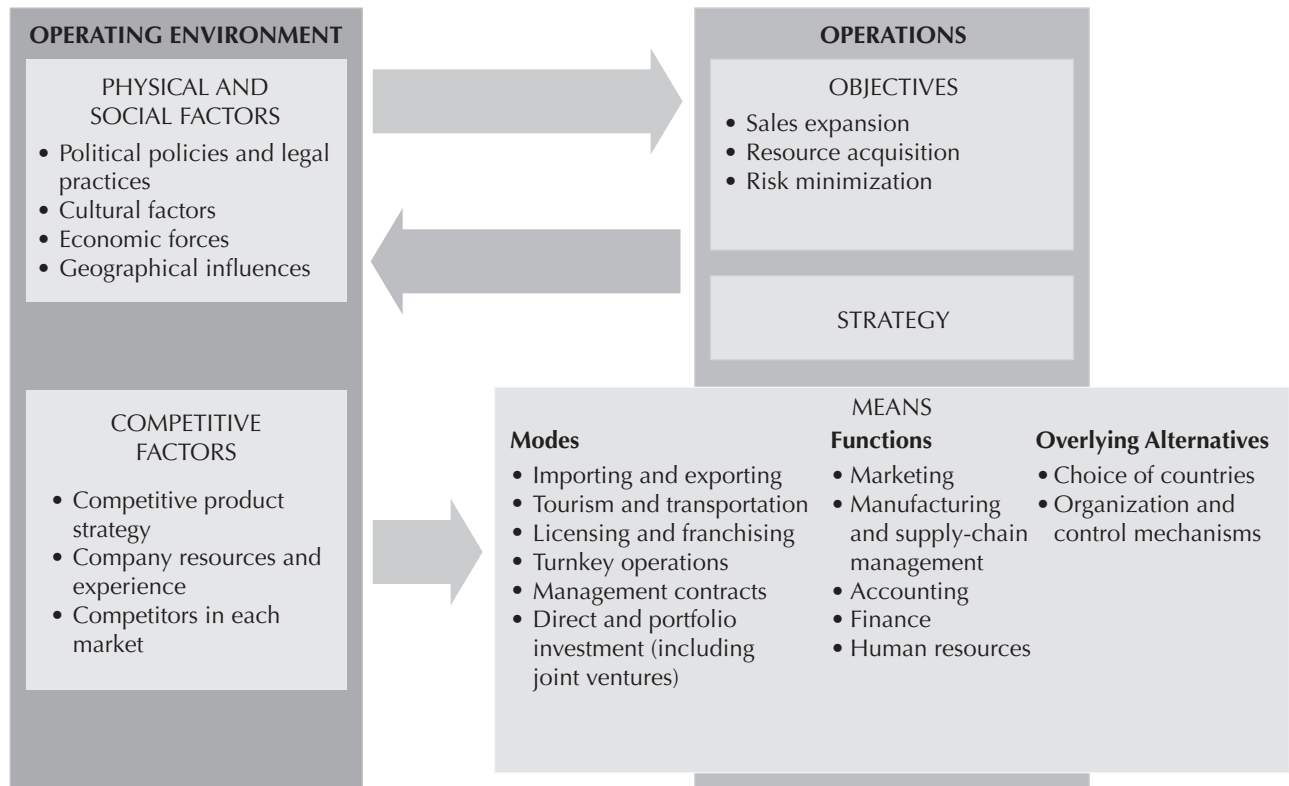
- The goal of private business is to make profits.
- Government business may or may not be motivated by profit.

Studying international business is important because

- Most companies either are international or compete with international companies.
- Modes of operations may differ from those used domestically.
- The best way of conducting business may differ by country.
- An understanding helps you make better career decisions.
- An understanding helps you decide what governmental policies to support.

**FIGURE 1.1** Factors in International Business Operations

The conduct of a company's international operations depends on two factors: its objectives and the means by which it intends to achieve them. Likewise, its operations affect, and are affected by, two sets of factors: physical/social and competitive.



international business when setting their operating strategies and practices. Like the NBA teams in the opening case, which search globally for talent and additional markets, as a manager in almost any industry you'll need to consider (1) where you can obtain the best required inputs at the best possible price and (2) where you can best sell the product or service you've put together from those inputs.

**Understanding the Environment/Operations Relationship** The best way to do business abroad may not be the same as the best way at home. Why? First, when your company operates internationally, it will engage in *modes* of business, such as exporting and importing, which differ from those it uses domestically. Second, physical, social, and competitive conditions differ among countries and affect the optimum ways to conduct business. Thus, international companies have more diverse and complex operating environments than purely domestic ones. Figure 1.1 outlines the set of relationships between international environments and operations.

Even if you never have direct international business responsibilities, understanding some of the complexities may be useful to you. Companies' international operations and their governmental regulations affect overall national conditions—economic growth, employment, consumer prices, national security—as well as the success of individual industries and firms. A better understanding of international business will help you make more informed decisions, such as where you want to work and what governmental policies you want to support.

#### Globalization

- Has been growing.
- Is less pervasive than generally thought.
- Has economic and non-economic dimensions.
- Is stimulated by several factors.

## THE FORCES DRIVING GLOBALIZATION

Measuring globalization is problematic, especially for historical comparisons. First, a country's interdependence must be measured indirectly.<sup>5</sup> Second, when national boundaries shift, such as in the breakup of the former Soviet Union or the reunification of East and West

Germany, domestic business transactions can become international ones and vice versa. Nevertheless, various reliable indicators assure us that economic interdependence has been increasing, at least since the mid-twentieth century. Currently, about 25 percent of world production is sold outside its country of origin, compared to about 7 percent in 1950. Restrictions on imports have generally been decreasing, and output from foreign-owned investments as a percentage of world production has increased. In periods of rapid economic growth, such as most years since World War II, world trade grows more rapidly than world production. However, in recessionary periods, such as that which began in 2008, global trade and investment shrink even more than the global economy. In fact, the world was less connected economically in 2012 than in 2007.<sup>6</sup>

At the same time, however, globalization is less pervasive than you might suppose. In fact, many Americans find it hard to believe that only about 15 percent of the value of goods and services bought in the United States comes from other countries. In much of the world (especially in poor rural areas), people lack the resources to connect much beyond their isolated domains. Such isolation is changing quickly, though; witness Africa, where telephone connectivity has increased markedly since the advent of mobile phones.<sup>7</sup> Only a few countries—mainly very small ones—either sell over half their production abroad or depend on foreign output for more than half their consumption. This means that most of the world's goods and services are still sold in the countries in which they're produced. Moreover, the principal source of capital in most countries is domestic rather than international.

Granted, these measurements address only *economic* aspects of global interdependence. Various studies have made more comprehensive comparisons by including, say, people-to-people contacts through travel and communications, technological interchanges, government-to-government relationships, and acceptance and adaptation of attributes from foreign cultures such as words from other languages.<sup>8</sup> Despite these ranking differences, the studies' results have several commonalities:

- *Size of countries*—Smaller countries tend to be more globalized than larger ones, mainly because their smaller land masses and populations permit a lower variety of production.
- *Income of the countries' populations*—Countries with higher-income populations tend to be more globalized than those with lower-income populations because their citizens can better afford foreign products, travel, and communications with people they have met abroad.
- *Variance among globalization aspects*—Although a country may rank as highly globalized on one dimension, it may be low on another, such as the United States being high on technological scales but low on economic ones.

## FACTORS IN INCREASED GLOBALIZATION

What factors have contributed to the growth of globalization in recent decades? Most analysts cite the following seven factors:

1. Increase in and application of technology
2. Liberalization of cross-border trade and resource movements
3. Development of services that support international business
4. Growth of consumer pressures
5. Increase in global competition
6. Changes in political situations and government policies
7. Expansion of cross-national cooperation

Of course, these factors are interrelated, and each deserves a closer look.

**Increase in and Application of Technology** Many of the proverbial “modern marvels” and efficient means of production have come about from fairly recent technical advances. These include new products, such as hand-held mobile technology devices, as well as new

applications of old products, such as guar beans from India now being used in oil and natural gas mining.<sup>9</sup> Thus, much of what we trade today either did not exist or was unimportant in trade a decade or two ago. Why have technical developments increased so much? More than half the scientists who have ever lived are alive today. One reason, of course, is population growth. But another is rising productivity—taking fewer hours to produce the same thing—which frees up more people to *develop* new products because fewer people can *produce* them. This rising productivity also means that on average people can buy more, including the new products, by working the same number of hours. The entry of new products into the market creates a need for other complementary products (such as cases and apps for smart phones), thus accelerating the need for scientists and engineers.

Many new products, as well as new ways to produce old ones, cannot easily take place in a single country. Much new technical innovation takes so many financial and intellectual resources that companies must cooperate to take on portions of development. These efforts may necessitate collaboration among and dependence on firms in different countries that have financial resources and specialized capabilities. A noteworthy example of interdependent technology, and one you may have watched on worldwide TV transmission, was the 2010 rescue of Chilean miners. Success would have been unlikely without the innovations and products from a variety of countries: the Center Rock drill bit from the United States, a high-strength cable from Germany, a super-flexible fiber optics communications cable from Japan, and a special cell phone from South Korea.<sup>10</sup>

Once new products are developed, the optimum scale size of production seldom corresponds with the market demand in a single country. Consequently, companies may need to sell both domestically and internationally in order to spread the fixed developmental and production costs over more units of production.

**Advances in Communications and Transportation** Strides in communications and transportation now allow us to discover and desire products and services developed in far parts of the world. Meanwhile, the costs of these improvements have risen more slowly in most years than costs in general. A three-minute phone call from New York to London that cost \$10.80 in 1970 costs less than \$0.20 today, while a call using Voice over Internet Protocol (VoIP) is virtually free.

Innovations in transportation mean that more countries can compete for sales to a given market. The sale of foreign-grown flowers in the United States used to be impractical; today, however, flowers from as far away as Ecuador, Israel, the Netherlands, and New Zealand compete with each other for the U.S. market because growers can ship them quickly and economically.



Or recall the opening case. Innovations allow individual athletes and teams to go head to head at venues around the world and sports media to broadcast competitions to fans everywhere. If it weren't for modern means of transportation and communications, a tennis pro couldn't play in Morocco right after finishing a tournament in Miami, and advertising wouldn't generate enough prize money to induce the pro to do all that traveling.

Improved communications and transportation also enhance a manager's ability to oversee foreign operations, such as more easily visiting foreign facilities and communicating with managers therein. Thanks to the Internet, companies can immediately exchange pictures of samples. Even small companies can reach global customers and suppliers. However, you may ponder the following question: Has the Internet been a bigger force in globalization than the laying of the first trans-oceanic cable across the Atlantic in 1858 that reduced communication time from 10 days to a matter of a few minutes?

**Liberalization of Cross-Border Trade and Resource Movements** To protect its own industries, every country restricts the movement across its borders of not only goods and services but also the resources—workers, capital, tools, and so on—needed to produce them. Such restrictions, of course, set limits on international business activities and, because

regulations can change at any time, contribute to a climate of uncertainty. Over time, however, most governments have reduced such restrictions, primarily for three reasons:

1. Their citizens want a greater variety of goods and services at lower prices.
2. Competition spurs domestic producers to become more efficient.
3. They hope to induce other countries to lower their barriers in turn.

**Services that Support International Business** Companies and governments have developed a variety of services that facilitate global commerce. Take sales in a foreign country and currency. Today, because of bank credit agreements—clearing arrangements that convert one currency into another and insurance that covers such risks as nonpayment and damage en route—most producers can be paid relatively easily for goods and services sold abroad. When Nike sells sportswear to a French soccer team, a bank in France collects payment in euros from the soccer team when the shipment arrives at French customs (probably from somewhere in Asia) and pays Nike in U.S. dollars through a U.S. bank.

**Growth in Consumer Pressures** More consumers know more today about products and services available in other countries, can afford to buy them, and want the greater variety in quality, price, and characteristics that access to them offers. However, because greater affluence is spread unevenly, both among and within countries as well as from year to year, consumers' ability to avail themselves of this variety differs substantially. As a result, more companies are now responding to those markets where incomes and consumption are growing most rapidly, such as China.

Greater affluence has also spurred companies to spend more on research and development (R&D) and to search worldwide—via the Internet, industry journals, trade fairs, and trips abroad—for innovations and products they can sell to ever-more-demanding consumers. By the same token, consumers are more proficient today at scouring the globe for better deals, such as searching the Internet for lower-priced prescription drugs abroad.

**Increase in Global Competition** The present and potential pressures of increased foreign competition can persuade companies to buy or sell abroad. For example, a firm might introduce products into markets where competitors are already gaining sales, or seek supplies where competitors are getting cheaper or more attractive products or the means to produce them.

In recent years, many companies have merged or acquired operations to gain the efficiencies to better compete, such as the publishing merger between the Random House division of the German firm Bertelsman with the Penguin division of the U.K. firm Pearson, or to become large enough to compete with or become global leaders, such as the merger between the Brazilian chilled and frozen food firms Perdigão and Sadia.<sup>11</sup>

So-called **born-global companies** start out with a global focus because of their founders' international experience<sup>12</sup> and because advances in communications give them a good idea of where global markets and supplies are. Take SoundCloud, a Swedish audio-sharing Web service. Of its two co-founders, one was born in England and the other in Sweden. The two moved to Germany within months after the firm's start-up and soon broke into the U.S. market, where they also secured \$50 million in financing.<sup>13</sup> Many new companies locate in areas with numerous competitors and suppliers, a situation known as **clustering** or **agglomeration**. They quickly observe how their competitors benefit from foreign opportunities. And because suppliers and human talent gravitate to these areas, they gain easier access to the resources needed for international moves.<sup>14</sup>

Regardless of industry, most firms and individuals have to become more global; in today's competitive business environment, failure to do so can be disastrous. Once a few companies have responded to foreign opportunities, others inevitably follow suit. And they learn from each other's foreign experiences. As the opening case suggests, for example, the early success of foreign-born baseball players in U.S. leagues undoubtedly spurred U.S. basketball and football organizations to look for and develop talent abroad.<sup>15</sup>