

Third Edition

# BUSINESS

A MANAGERIAL PERSPECTIVE

Riekay WeiGiailan

Texas A&M University

Vichter Wather

Texas A&M University



# Contents

Part One .> The	World's Mari	cetplaces	2		\$04 m		e de
CHAPTER 1 /	136	34 74	1	i nal Ru	einace		
NAME OF THE PARTY	ness of the Olyn	337 ( 34	ii ajii oi	nai bu	3111633		
WHAT IS INT	1 (18) (1 (1 (1 (1 (1 (1 (1 (1 (1 (1 (1 (1 (1	# 1 # # # # # # # # # # # # # # # # # #	55?	<b>5</b> 🔅 👍 -	40		1
> WHY STUDY	INTERNATIO	NAL BUS	INESS	? 5			**.
Wiring the V	<b>Vorld:</b> Moldo Succes		ription	for Inte	rnet		åz.
Venturing A	Succes <b>broad:</b> A Ros		Other I	Vame	 .> 8		
음악	VAL BUSINES	186日 T - 455.	4000	8		55	
Exporting and Ir International Inv	nporting 8 estments 9						: Ý
Bringing the	World into	Focus: TI B	he Earl		Interno	gtional	- 34
	International Bus	Sec. 4	3/4	5 51 L			\$6).
THE CONTEM		ISES OF	GLOBA	LIZATI	ON 1	2	
Strategic Impero Environmental C	itives 12 hange and Glol	oalization	13				
9 J. T. T. L.W.	World into	医硫烷 医二甲基二	£6.,	Maria de la compansión de	130 B		
Ø	W OF THE CO	NTENTS	OFTH	15 800	)K 18		100
Chapter Review 2 Building Global Sk Working with the V		oal Internet S	kills 21		By Co		1
In the News 21 Closing Case 22							(\bar{k}
CHAPTER 2	Global Mari		1	Busin	ess C	enters	24
	Rule: Know the	11					
The Desired State	1.7	VORTH A	MERIC	A 27			i,
The United State	broad: Classi	hina Cou	ntrias k	v Incon	na lava	le 27	
Canada 29		iying coo		y incom	44		· · ·
Mexico 30 Central America							. v
Wiring the V						ili ili. Se la la s	
THE MARKET		and the second second	- 8			4	
THE MARKET EUROPE 33 The Former Sovi	1 48 1		1.	PE ANI	*N	TRAL	) (2. 1)
· indiciniei 2041	e onon 33		:			•	

Central Europe 35

### > THE MARKETPLACES OF ASIA 38

Japan 38

Bringing the World into Focus: Who's Number Two? 40

Australia and New Zealand 41
The Four Tigers 42
China 43
India 44
Southeast Asian Countries 45

### > THE MARKETPLACES OF AFRICA AND THE MIDDLE EAST 45

Africa 45 Middle East - 47

### > THE MARKETPLACES OF SOUTH AMERICA 48

Chapter Review 50
Building Global Skills 50
Working with the Web: Building Global Internet Skills 51
In the News 52
Closing Case 52

POINT/COUNTERPOINT: Helping Developing Nations: Aid or Trade? 54

### CHAPTER 3 Legal, Technological, and Political Forces 56

Case: The Second Cultural Revolution 56

THE LEGAL ENVIRONMENT 58

Wiring the World: Law and the Internet 59

Differences in Legal Systems 59
Domestically Oriented Laws 62
Laws Directly Affecting International Business Transactions 63
Laws Directed Against Foreign Firms 64

**Bringing the World into Focus:** Should Bribes Be a Competitive Weapon? 65

The Impacts of MNCs on Host Countries 66 Dispute Resolution in International Business 67

### > THE TECHNOLOGICAL ENVIRONMENT 68

Venturing Abroad: Tapping India's Human Capital 69

### > THE POLITICAL ENVIRONMENT 72

Political Risk 72 The Emerging Market Economies 76

Chapter Review 77
Building Global Skills 78
Working with the Web: Building Global Internet Skills 79
In the News 79
Closing Case 79

### CHAPTER 4 The Role of Culture 82

Case: E-Culture 82

Wiring the World: The Internet, National Competitiveness, and Culture 84

### > CHARACTERISTICS OF CULTURE 85

> ELEMENTS OF CULTURE 85

Social Structure 85

# Bringing the World into Focus: The Impact of Japanese Culture on Business 87

Language 88

Wiring the World: French Language Experts Coin New Web Words 92

Bringing the World into Focus: International Communication:

A Primer 93

Communication 94
Religion' 96
Values and Attitudes 98

### > SEENG THE FOREST, NOT THE TREES 100

Hall's Low-Context—High-Context Approach 100
The Cultural Cluster Approach 101
Hofstede's Five Dimensions 102
Social Orientation 104
Power Orientation 106
Uncertainty Orientation 108
Goal Orientation 110
Time Orientation 111

### > INTERNATIONAL MANAGEMENT AND CULTURAL DIFFERENCES 111

Understanding New Cultures 111 Cultural Differences and Ethics 112

Chapter Review 113
Building Global Skills 114
Working with the Web: Building Global Internet Skills 114
In the News 114
Closing Case 115

PART-CLOSING VIDEO CASE: Considering Cultural and Political Forces: MTV Europe and Yahoo! 116

PART-CLOSING CASES: The Ethics of Global Tobacco Marketing / A Rat in My Soup 116

### Part Two > International Environment 120

### CHAPTER 5 International Trade and Investment Theory 120

Case: Caterpillar: Making Money by Moving Mountains 120

### INTERNATIONAL TRADE AND THE WORLD ECONOMY 123

### CLASSICAL COUNTRY-BASED TRADE THEORIES 124

Mercantilism 124
Absolute Advantage 125
Comparative Advantage 126

### Bringing the World into Focus: The Lincoln Fallacy 128

Comparative Advantage with Money 128 Relative Factor Endowments 129

### MODERN FIRM-BASED TRADE THEORIES 131

Country Similarity Theory 131 Product Life Cycle Theory 132 Global Strategic Rivalry Theory 134

Venturing Abroad: An Olympic-Sized Rivalry 135

Porter's National Competitive Advantage 137

Wiring the World: Nokia's Incredible Transformation 139

### > AN OVERVIEW OF INTERNATIONAL INVESTMENT 139

Types of International Investments 140
The Growth of Foreign Direct Investment 140
Foreign Direct Investment and the United States 142

### > INTERNATIONAL INVESTMENT THEORIES 143

Ownership Advantages 143 Internalization Theory 144 Dunning's Eclectic Theory 144

### > FACTORS INFLUENCING FOREIGN DIRECT INVESTMENT 145

Supply Factors 145
Demand Factors 147
Political Factors 147

Chapter Review 148
Building Global Skills 149
Working with the Web: Building Global Internet Skills 149
In the News 150
Closing Case 150

# CHAPTER 6 The International Monetary System and the Balance of Payments 152

Case: Will the Stars Shine on Astra Again? 152

### > HISTORY OF THE INTERNATIONAL MONETARY SYSTEM 155

The Gold Standard 155
The Collapse of the Gold Standard 156
The Bretton Woods Era 158
The International Bank for Reconstruction and Development 159
The End of the Bretton Woods System 164
Performance of the International Monetary System Since 1971 165

Bringing the World into Focus: Fixed Versus Flexible Exchange Rates 166

Bringing the World into Focus: Should Bretton Woods Be Restored? 169

### > THE BALANCE OF PAYMENTS ACCOUNTING SYSTEM 171

The Major Components of the Balance of Payments Accounting System 172

Venturing Abroad: Ben Franklin, World Traveler 177

The U.S. Balance of Payments in 1999–177
Defining Balance of Payments Surpluses and Deficits 180

Chapter Review 181
Building Global Skills 182
Working with the Web: Building Global Internet Skills 183
In the News 184
Closing Case 184

# CHAPTER 7 Foreign Exchange and International Financial Markets 186

Case: Dollar Makes Canada a Land of the Spree 186

- > THE ECONOMICS OF FOREIGN EXCHANGE 189
- > THE STRUCTURE OF THE FOREIGN-EXCHANGE MARKET 191
  Venturing Abroad: A Brief Hint 192

The Role of Banks 194

Wiring the World: The Biggest Online Market 195

Spot and Forward Markets 196
Arbitrage and the Currency Market 199

Bringing the World into Focus: Big Mac Currencies 202

### > THE INTERNATIONAL CAPITAL MARKET 206

Major International Banks 206
The Eurocurrency Market 208
The International Bond Market 208
Global Equity Markets 209
Offshore Financial Centers 210

Chapter Review 210
Building Global Skills 211
Working with the Web: Building Global Internet Skills 211
In the News 212
Closing Case 212

POINT/COUNTERPOINT: Should the IMF Bail Out Asia? 214

### CHAPTER 8 Formulation of National Trade Policies 216

Case: Desmarais Is Tired of Being Dumped On 216

### > RATIONALES FOR TRADE INTERVENTION 218

Industry-Level Arguments 219

Venturing Abroad: Jumbo Battle over Jumbo Jets 223

National Trade Policies 224

### **> BARRIERS TO INTERNATIONAL TRADE 226**

Tariffs 227

Bringing the World into Focus: A Loophole Big Enough to Drive Through 230

Nontariff Barriers 231

### > PROMOTION OF INTERNATIONAL TRADE 236

Subsidies 236
Foreign Trade Zones 237
Export Financing Programs 238

### > CONTROLLING UNFAIR TRADE PRACTICES 238

Countervailing Duties 239
Antidumping Regulations 239
Super 301 240
Should Countries Enforce Their Unfair Trade Practice Laws? 241

Chapter Review 241
Building Global Skills 242
Working with the Web: Building Global Internet Skills 243
In the News 243
Closing Case 243

### **CHAPTER 9 International Cooperation Among Nations 246**

Case: Trade and Prosperity: The Case of Mexico 246

# THE GENERAL AGREEMENT ON TARIFFS AND TRADE AND THE WORLD TRADE ORGANIZATION 249

The Role of the General Agreement on Tariffs and Trade 249

### Bringing the World into Focus: Most Nations Are Favored 251

The World Trade Organization 252

### > REGIONAL ECONOMIC INTEGRATION 254

Forms of Economic Integration 254

### Bringing the World into Focus: The WTO Makes the Headlines 255

The Impact of Economic Integration on Firms 257

### THE EUROPEAN UNION 257

Governing the European Union 259
The Struggle to Create a Common Market 260

Venturing Abroad: Lobbying the European Union 262

From Common Market to Economic Union 264

### > OTHER REGIONAL TRADING BLOCS 266

The North American Free Trade Agreement 266 Other Free Trade Agreements in the Americas 267 Trade Arrangements in the Asia-Pacific Region 270

Chapter Review 272 Building Global Skills 273

Working with the Web: Building Global Internet Skills 274

In the News 274 Closing Case 274

PART-CLOSING VIDEO CASE: The International Monetary

System 276

PART-CLOSING CASES: Regulatory Warfare / Nike Inc.: Developing an Effective Public

Relations Strategy 276

### Part Three > Managing International Business 280

### CHAPTER 10 International Strategic Management 280

Case: Global Mickey 280

# > THE CHALLENGES OF INTERNATIONAL STRATEGIC MANAGEMENT 283

Venturing Abroad: It May Not Be as Easy as It Seems 284
Bringing the World into Focus: "Teaching an Old Dog New
Tricks" 287

### > STRATEGIC ALTERNATIVES 288

### > COMPONENTS OF AN INTERNATIONAL STRATEGY 291

Distinctive Competence 291 Scope of Operations 292 Resource Deployment 293 Synergy 293

### DEVELOPING INTERNATIONAL STRATEGIES 293

Wiring the World: A Real (Lack of) Differentiation 294

Mission Statement 294
Environmental Scanning and the SWOT Analysis 295
Strategic Goals 297
Tactics 297
Control Framework 298

### > LEVELS OF INTERNATIONAL STRATEGY 298

Corporate Strategy 298

Business Strategy 301 Functional Strategies 302

Chapter Review 303
Building Global Skills 304
Working with the Web: Building Global Internet Skills 305
In the News 305
Closing Case 305

# CHAPTER 11 Strategies for Analyzing and Entering Foreign Markets 308

Case: Heineken Brews Up Global Strategy 308

### > FOREIGN-MARKET ANALYSIS 310

Assessing Alternative Foreign Markets 310 Evaluating Costs, Benefits, and Risks 314

### CHOOSING A MODE OF ENTRY 315

### > EXPORTING TO FOREIGN MARKETS - 318

Venturing Abroad: Jumping on a Japanese Jam Deal 320

Forms of Exporting 320 Additional Considerations 322 Export Intermediaries 324

### INTERNATIONAL LICENSING 326

Basic Issues in International Licensing 327
Advantages and Disadvantages of International Licensing 328

### INTERNATIONAL FRANCHISING 329

Basic Issues in International Franchising 329
Advantages and Disadvantages of International Franchising 330

Wiring the World: Advice from Afar 331

### > SPECIALIZED ENTRY MODES FOR INTERNATIONAL BUSINESS 331

Contract Manufacturing 331 Management Contract 332 Turnkey Project 332

### FOREIGN DIRECT INVESTMENT 332

The Greenfield Strategy 333
The Acquisition Strategy 334
Joint Ventures 335

### Bringing the World into Focus: A Bubbly Business 335

Chapter Review 336
Building Global Skills 337
Working with the Web: Building Global Internet Skills 337
In the News 338
Closing Case 338

POINT/COUNTERPOINT: Should Trade in Ivory Be Allowed? 340

### CHAPTER 12 International Strategic Alliances 342

Case: The European Cereal Wars 342

### INTERNATIONAL CORPORATE COOPERATION 344

### DENEFITS OF STRATEGIC ALLIANCES 346

Stared Risk 347

Shared Knowledge and Expertise 348
Synergy and Competitive Advantage 348

**Venturing Abroad:** The Ups and Downs of Market Entry 349 **Wiring the World:** Sea Launch: A Match Made in the Heavens 350

> SCOPE OF STRATEGIC ALLIANCES 350

Comprehensive Alliances 350 Functional Alliances 351

Bringing the World into Focus: Culture Clash at GM and Toyota 353

> IMPLEMENTATION OF STRATEGIC ALLIANCES 354

Selection of Partners 354
Form of Ownership 355
Joint Management Considerations 357

### > PITFALLS OF STRATEGIC ALLIANCES 359

Incompatibility of Partners 359
Access to Information 360
Conflicts over Distributing Earnings 360
Loss of Autonomy 360
Changing Circumstances 361

Chapter Review 361
Building Global Skills 362
Working with the Web: Building Global Internet Skills 363
In the News 363
Closing Case 364

# CHAPTER 13 Organization Design for International Business 366

Case: Unilever Matches Strategy and Structure 366

- > THE NATURE OF INTERNATIONAL ORGANIZATION DESIGN 368
- > INITIAL IMPACTS OF INTERNATIONAL ACTIVITY ON ORGANIZATION DESIGN 369

The Corollary Approach 370
The Export Department 370
The International Division 370

Wiring the World: E-Commerce and the World of Publishing 372

### > GLOBAL ORGANIZATION DESIGNS 372

Global Product Design 373 Global Area Design 375

Venturing Abroad: Flying Solo in China 375

Global Functional Design 377 Global Customer Design 379 Global Matrix Design 380 Hybrid Global Designs 381

### > RELATED ISSUES IN GLOBAL ORGANIZATION DESIGN 383

Centralization Versus Decentralization 383

Bringing the World into Focus: Coca-Cola—Still "The One"? 384

Role of Subsidiary Boards of Directors 384 Coordination in the Global Organization 385

### CORPORATE CULTURE IN INTERNATIONAL BUSINESS 386

Creating the Corporate Culture in International Business 387 Managing the Corporate Culture in International Business 387

### MANANGING CHANGE IN INTERNATIONAL BUSINESS 388

Reasons for Change in International Business 388
Types of Change in International Business 389

Chapter Review 390
Building Global Skills 391
Working with the Web: Building Global Internet Skills 391
In the News 392
Closing Case 392

# CHAPTER 14 Managing Behavior and Interpersonal Relations 394

Case: A Leadership Firestorm at Firestone 394

### > INDIVIDUAL BEHAVIOR IN INTERNATIONAL BUSINESS 397

Personality Differences Across Cultures 397 Attitudes Across Cultures 399

Wiring the World: Privacy at Work in Russia 400

Perception Across Cultures 402 Stress Across Cultures 402

**Bringing the World into Focus:** The U.S. Is Crowded with Liars Who Prefer Pets to Kids 403

### MOTIVATION IN INTERNATIONAL BUSINESS 404

Needs and Values Across Cultures 404
Motivational Processes Across Cultures 404
Need-Based Models Across Cultures 404
Process-Based Models Across Cultures 406
The Reinforcement Model Across Cultures 407

### > LEADERSHIP IN INTERNATIONAL BUSINESS 407

### DECISION MAKING IN INTERNATIONAL BUSINESS 410

Models of Decision Making 410
The Normative Model Across Cultures 411
The Descriptive Model Across Cultures 413

### GROUPS AND TEAMS IN INTERNATIONAL BUSINESS 414

The Nature of Group Dynamics 414 Managing Cross-Cultural Teams 414

Venturing Abroad: Mixing and Matching in a New Joint Venture 415

Chapter Review 416
Building Global Skills 417
Working with the Web: Building Global Internet Skills 417
In the News 418
Closing Case 418

### CHAPTER 15 Controlling the International Business 420

Case: Daimler and Chrysler: A Dream Partnership? 420

### > LEVELS OF CONTROL IN INTERNATIONAL BUSINESS 423

Strategic Control 423 Organizational Control 425 Operations Control 429

# MANAGING THE CONTROL FUNCTION IN INTERNATIONAL BUSINESS 429

Establishing International Control Systems 429
Essential Control Techniques 432

**Venturing Abroad:** Effective Control at Siebel Systems 433 Behavioral Aspects of International Control 435

> CONTROLLING PRODUCTIVITY IN INTERNATIONAL BUSINESS 436

Productivity Around the World 437 Managing Productivity 437

Wiring the World: E-Purchasing to Improve Operations 439

> CONTROLLING QUALITY IN INTERNATIONAL BUSINESS 439

Quality Around the World 440 Total Quality Management 443

> CONTROLLING INFORMATION IN INTERNATIONAL BUSINESS 444

Bringing the World into Focus: Language Snafus and the Internet 445

Managing Information 445

Chapter Review 446
Building Global Skills 447
Working with the Web: Building Global Internet Skills 448
In the News 448
Closing Case 449

PART-CLOSING VIDEO CASE: A Strategic Partnership Aids Teva's March into Foreign Markets 451

PART-CLOSING CASES: Ben & Jerry's—Japan / Reinventing Nissan 451

### Part Four > Managing International Business Operations 456

### CHAPTER 16 International Marketing 456

Case: Wal-Mart Courts European Shoppers 456

> INTERNATIONAL MARKETING MANAGEMENT 459

International Marketing and Business Strategies 459

Wiring the World: Pretty Garlic 460

The Marketing Mix 461
Standardization Versus Customization 461

> PRODUCT POLICY 464

Standardized Products or Customized Products? 465 Legal Forces 466 Cultural Influences 466

Wiring the World: E-Marketing: Beware the Regulators 467.

Economic Factors 468 Brand Names 468

> PRICING ISSUES AND DECISIONS 468

Pricing Policies 469 Market Pricing 470

> PROMOTION ISSUES AND DECISIONS 472

Advertising 473

Bringing the World into Focus: Sailing for Sales 474

Personal Selling 476 Sales Promotion 477 Public Relations 477

### DISTRIBUTION ISSUES AND DECISIONS 478

International Distribution 478 Channels of Distribution 479

Chapter Review 482 Building Global Skills 483

Working with the Web: Building Global Internet Skills 483

In the News 484 Closing Case 484

### CHAPTER 17 International Operations Management 486

Case: Coloring the World 486

# > THE NATURE OF INTERNATIONAL OPERATIONS MANAGEMENT 489

**Bringing the World into Focus:** "Where's the factory? This is a warehouse." 490

The Strategic Context of International Operations Management 491 Complexities of International Operations Management 492

### > PRODUCTION MANAGEMENT 492

Supply Chain Management and Vertical Integration 493

Venturing Abroad: Suppliers: Friend or Foe? 496

Location Decisions 497

International Logistics and Materials Management 501

Venturing Abroad: The Booming Market in Logistics Services 502

### INTERNATIONAL SERVICE OPERATIONS 503

Characteristics of International Services 503
The Role of Government in International Services Trade 504
Managing Service Operations 505

Chapter Review 506 Building Global Skills 506

Working with the Web: Building Global Internet Skills 508

In the News 509 Closing Case 509

**POINT/COUNTERPOINT:** Should International Businesses Promote Human and Worker Rights? 510

### CHAPTER 18 International Financial Management 512

Case: KLM's Worldwide Financial Management 512

### > FINANCIAL ISSUES IN INTERNATIONAL TRADE 514

Choice of Currency 514 Credit Checking 514 Method of Payment 515

Venturing Abroad: What Your Advising Fees Buy 519

Financing Trade 524

**Bringing the World into Focus:** The Three Gorges Dam: It's Not a Feast for U.S. Firms 524

### MANAGING FOREIGN-EXCHANGE RISK 526

Transaction Exposure 526 Translation Exposure 528 Economic Exposure 529