

DANIELS RADEBAUGH SULLIVAN



INTERNATIONAL BUSINESS

ENVIRONMENTS & OPERATIONS

SIXTEENTH EDITION

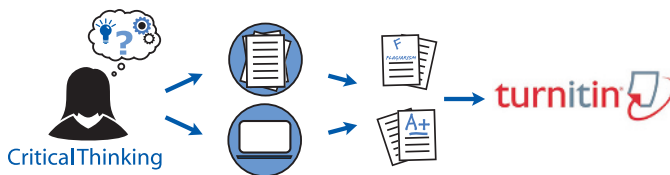
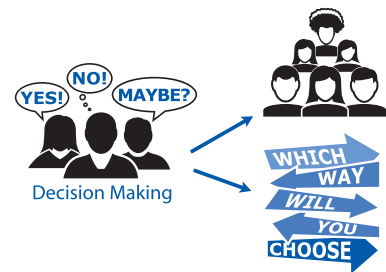


Engage, Assess, Apply



- **MediaShare for Business**—Consisting of a curated collection of business videos tagged to learning outcomes and customizable, auto-scored assignments, MediaShare for Business helps students understand why they are learning key concepts and how they will apply those in their careers. Instructors can also assign favorite YouTube clips or original content and employ MediaShare’s powerful repository of tools to maximize student accountability and interactive learning, and provide contextualized feedback for students and teams who upload presentations, media, or business plans.

- **Branching, Decision-Making Simulations**—Put your students in the role of manager as they make a series of decisions based on a realistic business challenge. The simulations change and branch based on their decisions, creating various scenario paths. At the end of each simulation, students receive a grade and a detailed report of the choices they made with the associated consequences included.



- **Writing Space**—Better writers make great learners who perform better in their courses. Designed to help you develop and assess concept mastery and critical thinking, the Writing Space offers a single place to create, track, and grade writing assignments, provide resources, and exchange meaningful, personalized feedback with

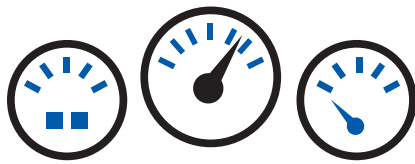
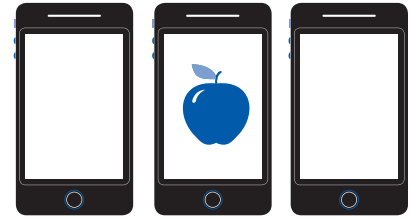
students, quickly and easily. Thanks to auto-graded, assisted-graded, and create-your-own assignments, you decide your level of involvement in evaluating students’ work. The auto-graded option allows you to assign writing in large classes without having to grade essays by hand. And because of integration with Turnitin®, Writing Space can check students’ work for improper citation or plagiarism.

- **Enhanced eText**—Keeps students engaged in learning on their own time, while helping them achieve greater conceptual understanding of course material. The worked examples bring learning to life, and algorithmic practice allows students to apply the very concepts they are reading about. Combining resources that illuminate content with accessible self-assessment, MyLab with Enhanced eText provides students with a complete digital learning experience—all in one place.



with MyManagementLab[®]

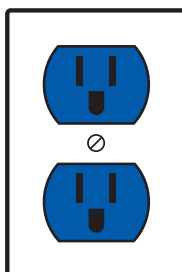
- **Learning Catalytics™**—Is an interactive, student response tool that uses students' smartphones, tablets, or laptops to engage them in more sophisticated tasks and thinking. Now included with MyLab with eText, Learning Catalytics enables you to generate classroom discussion, guide your lecture, and promote peer-to-peer learning with real-time analytics.



- **Reporting Dashboard**—View, analyze, and report learning outcomes clearly and easily, and get the information you need to keep your students on track throughout the course with the new Reporting Dashboard. Available via the MyLab Gradebook and fully mobile-ready, the Reporting Dashboard presents student performance data at the class, section, and program levels in an accessible, visual manner.

- **Accessibility (ADA)**—Pearson works continuously to ensure our products are as accessible as possible to all students. The platform team for our Business MyLab products is working toward achieving WCAG 2.0 Level AA and Section 508 standards, as expressed in the **Pearson Guidelines for Accessible Educational Web Media**. Moreover, our products support customers in meeting their obligation to comply with the Americans with Disabilities Act (ADA) by providing access to learning technology programs for users with disabilities.

The following information provides tips and answers to frequently asked questions for those using assistive technologies to access the Business MyLab products. As product accessibility evolves continuously, please email our Accessibility Team at disability.support@pearson.com for the most up-to-date information.



- **LMS Integration**—You can now link from Blackboard Learn, Brightspace by D2L, Canvas, or Moodle to MyManagementLab. Access assignments, rosters, and resources, and synchronize grades with your LMS gradebook. For students, single sign-on provides access to all the personalized learning resources that make studying more efficient and effective.

International Business

Environments & Operations

Sixteenth Edition

John D. Daniels

University of Miami

Lee H. Radebaugh

Brigham Young University

Daniel P. Sullivan

University of Delaware



New York, NY

Vice President, Business Publishing: Donna Battista
Director of Portfolio Management: Stephanie Wall
Portfolio Manager: Daniel Tylman
Editorial Coordinator: Linda Albelli
Vice President, Product Marketing: Roxanne McCarley
Director of Strategic Marketing: Brad Parkins
Strategic Marketing Manager: Deborah Strickland
Product Marketer: Becky Brown
Field Marketing Manager: Lenny Ann Kucenski
Product Marketing Assistant: Jessica Quazza
Vice President, Production and Digital Studio, Arts and Business: Etain O'Dea
Director of Production, Business: Jeff Holcomb
Managing Producer, Business: Ashley Santora
Operations Specialist: Carol Melville

Creative Director: Blair Brown
Manager, Learning Tools: Brian Surette
Content Developer, Learning Tools: Lindsey Sloan
Managing Producer, Digital Studio, Arts and Business: Diane Lombardo
Digital Studio Project Manager: Darren Cormier
Digital Studio Project Manager: Alana Coles
Full-Service Project Management and Composition: Integra Software Services Pvt. Ltd.
Interior Designer: Integra Software Services Pvt. Ltd.
Cover Designer: Integra Software Services Pvt. Ltd.
Cover Art: Maksim Pasko/Fotolia
Printer/Binder: RRD Willard
Cover Printer: Phoenix

Copyright © 2018, 2015, 2013 by Pearson Education, Inc. or its affiliates. All Rights Reserved. Manufactured in the United States of America. This publication is protected by copyright, and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise. For information regarding permissions, request forms, and the appropriate contacts within the Pearson Education Global Rights and Permissions department, please visit www.pearsoned.com/permissions/.

Acknowledgments of third-party content appear on the appropriate page within the text.

PEARSON, ALWAYS LEARNING, and MYMANAGEMENTLAB® are exclusive trademarks owned by Pearson Education, Inc. or its affiliates in the U.S. and/or other countries.

Unless otherwise indicated herein, any third-party trademarks, logos, or icons that may appear in this work are the property of their respective owners, and any references to third-party trademarks, logos, icons, or other trade dress are for demonstrative or descriptive purposes only. Such references are not intended to imply any sponsorship, endorsement, authorization, or promotion of Pearson's products by the owners of such marks, or any relationship between the owner and Pearson Education, Inc., or its affiliates, authors, licensees, or distributors.

Library of Congress Cataloging-in-Publication Data Is Available On Request

10 9 8 7 6 5 4 3 2 1



ISBN 10: 0-13-420005-5
ISBN 13: 978-0-13-420005-7

Brief Contents

Preface xxii

About the Authors xxix

PART ONE: Background for International Business 1

1 Globalization and International Business 1

PART TWO: Comparative Environmental Frameworks 25

2 The Cultural Environments Facing Business 25

3 The Political and Legal Environments Facing Business 57

4 The Economic Environments Facing Business 93

5 Globalization and Society 129

PART THREE: Theories and Institutions: Trade and Investment 153

6 International Trade and Factor Mobility Theory 153

7 Governmental Influence on Trade 183

8 Cross-National Cooperation and Agreements 207

PART FOUR: World Financial Environment 235

9 Global Foreign-Exchange Markets 235

10 The Determination of Exchange Rates 257

11 Global Capital Markets 279

PART FIVE: Global Strategy, Structure, and Implementation 301

12 The Strategy of International Business 301

13 Country Evaluation and Selection 335

14 Export and Import 361

15 Direct Investment and Collaborative Strategies 397

16 The Organization of International Business 427

PART SIX: Managing International Operations 461

17 Marketing Globally 461

18 Global Operations and Supply-Chain Management 493

19 International Accounting
and Finance Issues 517

20 International Human Resource Management 545

Contents

Preface	xxii
About the Authors	xxix
• PART ONE: BACKGROUND FOR INTERNATIONAL BUSINESS	1
1 Globalization and International Business	1
CASE: The Globalized Business of Sports	2
Introduction	4
Why Study About Globalization, IB, and Their Relationship?	5
How Does <i>IB</i> Fit In?	5
The Study of IB	5
The Forces Driving Globalization and IB	6
Factors in Increased Globalization	7
The Criticisms of Globalization	10
Threats to National Sovereignty	10
Environmental Stress	11
Growing Income Inequality and Personal Stress	11
 Point-Counterpoint	
Is Offshoring of Production a Good Strategy?	12
Why Companies Engage in IB	14
Sales Expansion	14
Resource Acquisition	14
Risk Reduction	14
IB Operating Modes	15
Merchandise Exports and Imports	15
Service Exports and Imports	15
Investments	16
Types of International Organizations	16
Why do Companies' External Environments Affect How they May Best Operate Abroad?	16
Physical Factors	17
Institutional Factors	17
The Competitive Environment	18
 Looking to the Future	
Three Major Scenarios on Globalization's Future	19
CASE: Carnival Cruise Lines	21
Endnotes	23

• **PART TWO: COMPARATIVE ENVIRONMENTAL FRAMEWORKS** 25

2 The Cultural Environments Facing Business 25

CASE: Saudi Arabia's Dynamic Culture 26

Culture's Importance in IB and Trickiness To Assess 29

National Cultures as a Point of Reference 29

The People Factor 30

Building Cultural Awareness 31

Shortcomings in Cultural Assessments 31

Influences on Cultural Formation and Change 32

Sources of Change 32

Language as Both a Diffuser and Stabilizer of Culture 32

Religion as a Cultural Stabilizer 34

Major Behavioral Practices Affecting Business 35

Issues in Social Stratification 35

Work Motivation 37

Relationship Preferences 40

Risk-Taking Behavior 40

Information and Task Processing 41

Problems in Communicating Across Cultures 42

Translation of Spoken and Written Language 42

Silent Language 43

Guidelines For Cultural Adjustment 45

Host Society Acceptance 45

Degree of Cultural Differences 45

Ability to Adjust: Culture Shock 46

Company and Management Orientations 46

Strategies for Instituting Change 47



Point-Counterpoint

Does IB Lead To Cultural Imperialism? 48



Looking to the Future

Scenarios on The Evolvement of National Cultures 50

CASE: Tesco PLC: Leveraging Global Knowledge 52

Endnotes 55

3 The Political and Legal Environments Facing Business 57

CASE: China: Big Opportunities, Complicated Risks 58

Politics, Laws, and Operating Internationally 60

The Political Environment 62

Individualism 62

Collectivism	62
Political Ideology	63
Democracy	64
Totalitarianism	65
The State of Political Freedom	67
The Prevalence of Political Freedom	68
The Struggles of Political Freedom	68
The Allure of Authoritarianism	71
 Looking to the Future	
Political Ideology and MNEs' Actions	72
Political Risk	74
Classifying Political Risk	74
 Point-Counterpoint	
Proactive Political Risk Management: The Superior Approach	76
The Legal Environment	78
Types of Legal Systems	79
The Foundation of Legality	80
Mapping the Basis of Law	81
Which Rule When?	82
Implications to Managers	84
Legal Issues Facing International Companies	84
Operational Concerns	85
Strategic Concerns	86
Politics, Law, and the Business Environment	88
CASE: It's a Knockoff World	89
Endnotes	91
4 The Economic Environments Facing Businesses	93
CASE: Emerging Economies: Comeback or Collapse?	94
International Economic Analysis	95
Navigating Challenges	96
Who's Who in the Global Business Environment	97
Developed Economies	97
Developing Economies	98
Economies in Transition	100
The Issue of Different Degrees of Development	101
Economic Freedom	103
The Value of Economic Freedom	105
The Prevalence of Economic Freedom	106
Economic Freedom and Type of Economic Environment	107
The Paradox of Promise Versus Prevalence	107

 **Looking to the Future**
State Capitalism: Detour or Destination? 110

Types of Economic Systems	111
The Market Economy	111
The Command Economy	112
Mixed Economy	113
Assessing Economic Development, Performance, and Potential	114
Monetary Measures	114
Improving Economic Analytics	116
The Wildcard: The Shadow Economy	118
Sustainability and Stability	119
Sustainability	119
Stability	120


 **Point-Counterpoint**
Growth: Positive and Productive? 121


Elements of Economic Analysis	123
Integrating Economic Analysis	123
Economic Freedom, Innovation, and Competitiveness	125
CASE: Economic Environments of the West: Problems, Puzzles, and the 4th Industrial Revolution	126
Endnotes	128

5 Globalization and Society 129

**CASE: Ecomagination and the Global Greening
of GE 130**

Introduction	132
Stakeholder Trade-Offs	132
The Economic Impact of the MNE	133
Balance-of-Payments Effects	134
Growth and Employment Effects	135
The Foundations of Ethical Behavior	136
Why Do Companies Care About Ethical Behavior?	137
The Cultural Foundations of Ethical Behavior	137
Relativism Versus Normativism	137
The Legal Foundations of Ethical Behavior	138
Legal Justification: Pro and Con	138
Corruption and Bribery	139
Petrobras: Corruption in Brazil with a Global Twist	140
The Consequences of Corruption	140
What's Being Done About Corruption?	141

Ethics and the Environment	142
What Is “Sustainability”?	142
Global Warming and The Paris Agreement on Climate Change	143
Ethical Dilemmas of Labor Conditions	144
 Point-Counterpoint	
Should MNEs Accept Full Responsibility for the Unethical Behavior of Their Employees?	144
The Problem of Child Labor	146
What MNEs Can and Can’t Do	147
Corporate Codes of Ethics: How Should a Company Behave?	147
Motivations for Corporate Responsibility	147
Developing a Code of Conduct	147
 Looking to the Future	
Dealing with Ethical Dilemmas in the Global Economy	148
CASE: Anglo American PLC in South Africa: What Do You Do When Costs Reach Epidemic Proportions?	149
Endnotes	151
• PART THREE: THEORIES AND INSTITUTIONS: TRADE AND INVESTMENT	153
6 International Trade and Factor Mobility Theory	153
CASE: The Evolution of Taiwan’s International Trade	154
Introduction: Why Do Policymakers Rely on International Trade and Factor Mobility Theories?	156
Interventionist and Free Trade Theories	158
Mercantilism	158
Neomercantilism	158
Free Trade Theories	159
Theory of Absolute Advantage	159
Theory of Comparative Advantage	161
Theories of Specialization: Some Assumptions and Limitations	162
Theories to Explain National Trade Patterns	164
How Much Does A Country Trade?	164
What Types of Products Does A Country Trade?	166
With Whom Do Countries Trade?	167
The Dynamics of Export Capabilities	168
Product Life Cycle (PLC) Theory	168
The Diamond of National Competitive Advantage	170
The Theory and Major Effects of Factor Mobility	172

	Point-Counterpoint	
	Should Nations Use Strategic Trade Policies?	172
	Why Production Factors Move	174
	Effects of Factor Movements	175
	The Relationship between Trade and Factor Mobility	176
	Substitution	176
	Complementarity	176
		Looking to the Future
	Scenarios That May Change Trade Patterns	177
	CASE: Ecuador: A Rosy Export Future?	179
	Endnotes	182
7	Governmental Influence on Trade	183
	CASE: The U.S.–Vietnamese Catfish Dispute	184
	Conflicting Outcomes of Trade Protectionism	186
	The Role of Stakeholders	187
	Economic Rationales for Governmental Trade Intervention and Outcome Uncertainties	187
	Fighting Unemployment	187
	Protecting “Infant Industries”	188
	Developing an Industrial Base	189
	Economic Relationships with Other Countries	190
	Governments’ Noneconomic Rationales and Outcome for Trade Intervention	192
	Maintaining Essential Industries	192
	Promoting Acceptable Practices Abroad	193
	Point-Counterpoint	
	Should Governments Impose Trade Sanctions?	193
	Maintaining or Extending Spheres of Influence	195
	Preserving National Culture	195
	Major Instruments of Trade Control	195
	Tariffs: Direct Price Influences	195
	Nontariff Barriers: Direct Price Influences	196
	Nontariff Barriers: Quantity Controls	198
	How Companies Deal With Governmental Trade Influences	201
	Tactics for Dealing with Import Competition	201
	Convincing Decision-Makers	201
	Involving the Industry and Stakeholders	201
	Preparing for Changes in the Competitive Environment	202
		Looking to the Future
	Dynamics and Complexity of Future World Trade	202

	CASE: Should U.S. Imports of Prescription Drugs from Canada Be Widened?	203
Endnotes		205
8	Cross-National Cooperation and Agreements	207
	CASE: Toyota's European Drive	208
Forms of Economic Integration		209
The World Trade Organization—Global Integration		210
GATT: Predecessor to the WTO		210
What Does the WTO Do?		210
Regional Economic Integration		211
Bilateral Agreements		211
Geography Matters		211
The Effects of Integration		212
Major Regional Trading Groups		213
The European Union		214
The North American Free Trade Agreement (NAFTA)		218
Regional Economic Integration in the Americas		221
Regional Economic Integration in Asia		223
Regional Economic Integration in Africa		225
	Point-Counterpoint	
	Is Regional Economic Integration a Good Idea?	226
	The United Nations and Other NGOs	227
Commodity Agreements		229
Commodities and the World Economy		229
Consumers and Producers		229
The Organization of the Petroleum Exporting Countries (OPEC)		230
	Looking to the Future	
	Will the WTO Overcome Bilateral and Regional Integration Efforts?	231
	CASE: Walmart Goes South	232
Endnotes		234
	• PART FOUR: WORLD FINANCIAL ENVIRONMENT	235
9	Global Foreign-Exchange Markets	235
	CASE: Going Down to the Wire in the Money-Transfer Market	236
What is Foreign Exchange and Who are The Major Players in The Market?		237

Some Aspects of The Foreign-Exchange Market	238
How to Trade Foreign Exchange	238
Global OTC Foreign-Exchange Instruments	239
Size, Composition, and Location of the Foreign-Exchange Market	239
Foreign-Exchange Trades and Time Zones	241
Major Foreign-Exchange Markets	243
The Spot Market	243
The Forward Market	244
Options	244
Futures	245
The Foreign-Exchange Trading Process	245
Banks and Exchanges	245
Top Exchanges for Trading Foreign Exchange	246
How Companies Use Foreign Exchange	247
Cash Flow Aspects of Imports and Exports	247
Other Financial Flows	248
 Point-Counterpoint	
Is It OK to Speculate on Currency?	249
 Looking to the Future	
Where Are Foreign-Exchange Markets Headed?	251
CASE: Do Yuan to Buy Some Renminbi?	252
Endnotes	255

10 The Determination of Exchange Rates 257

CASE Venezuela's Rapidly Changing Currency 258

Introduction 259

The International Monetary Fund 260

 Origin and Objectives 260

 The IMF Today 260

 The Role of the IMF in Global Financial Crises 261

 Evolution to Floating Exchange Rates 261

Exchange-Rate Arrangements 262

 Three Choices: Hard Peg, Soft Peg, or Floating Arrangement 262

 Hard Peg 263

 Soft Peg 263

 Floating Arrangement 263

 The Euro 263



Point-Counterpoint


 Should Africa Develop a Common Currency? 265



Determining Exchange Rates 266

 Nonintervention: Currency in a Floating-Rate World 266

Intervention: Currency in a Fixed-Rate or Managed Floating-Rate World	267
Black Markets	268
Foreign-Exchange Convertibility and Controls	268
Exchange Rates and Purchasing Power Parity	269
Exchange Rates and Interest Rates	271
Other Factors in Exchange-Rate Determination	272
Forecasting Exchange-Rate Movements	272
Fundamental and Technical Forecasting	272
Fundamental Factors to Monitor	272
Business Implications of Exchange-Rate Changes	273
Marketing Decisions	273
Production Decisions	274
Financial Decisions	274
 Looking to the Future	
Changes in the Relative Strength of Global Currencies	274
Case: Welcome to the World of Sony—Unless the Falling Yen Rises (or Falls) Again	275
Endnotes	278
11 Global Capital Markets	279
CASE: Tax Wars: Pfizer Versus the U.S. Government	280
The Finance Function	281
The Role of the CFO	281
Capital Structure	282
Leveraging Debt Financing	282
Factors Affecting the Choice of Capital Structure	282
Global Debt Markets	284
Eurocurrencies and the Eurocurrency Market	284
International Bonds	285
Global Equity Markets	286
The Size of Global Stock Markets	287
Taxation of Foreign-Source Income	289
International Tax Practices	289
Taxing Branches and Subsidiaries	290
Transfer Prices	292
Double Taxation and Tax Credit	293
Dodging Taxes	294
Offshore Financing and Offshore Financial Centers	294
What is an OFC?	294

	Point-Counterpoint	
	Should Offshore Financial Centers and Aggressive Tax Practices Be Eliminated?	296
	Looking to the Future	
	The Growth of Capital Markets and the Drive by Governments to Capture More Tax Revenues by MNEs	297
	CASE: Does the Devil Really Wear Prada?	298
	Endnotes	300
•	PART FIVE: GLOBAL STRATEGY, STRUCTURE, AND IMPLEMENTATION	301
12	The Strategy of International Business	301
	CASE: Zara's Disruptive Vision: Data-Driven Fast-Fashion	302
	Strategy in the MNE	304
	Getting Started: Vision and Mission	305
	Moving Onward: Strategic Planning	307
	Making Sense to Make Strategy	307
	The Role of Resources, Capabilities, and Competencies	308
	The Quest to Create Value	310
	The Cost Leadership Strategy	310
	The Differentiation Strategy	311
	The Integrated Cost Leadership/Differentiation Strategy	312
	Point-Counterpoint	
	Is Strategic Planning Productive?	313
	Organizing Value Creation: The Value Chain	314
	Configuring the Value Chain	315
	Looking to the Future	
	Digits, Widgets, and Changing Location Advantages	319
	Global Integration Versus Local Responsiveness	321
	The Potential for Standardization	322
	The Characteristics of Consumer Preferences	323
	The Effect of Institutional Agents	324
	Global Integration and Local Responsiveness: Mapping their Interaction	324
	International Corporate-Level Strategies	326
	The International Strategy	326
	The Localization Strategy	328
	Global Strategy	329
	Transnational Strategy	330

	CASE: The Multinational Enterprise of the Future: Leading Scenarios	332
Endnotes		334
13	Country Evaluation and Selection	335
	CASE Burger King®	336
The Importance of Location		338
Comparing Countries Through Scanning		338
Why Is Scanning Important?		338
Scanning Versus Detailed Analysis		339
Opportunity and Risk Variables		340
Opportunities: Sales Expansion		340
Opportunities: Resource Acquisition		341
Risks		343
Analyzing and Relating the Opportunity and Risk Variables		348
Sources and Shortcomings of Comparative Country Information		350
Some Problems with Research Results and Data		350
External Sources of Information		351
Internally Generated Data		352
 Point-Counterpoint		
Should Companies Operate in and Send Employees to Violent Areas?		352
Alternatives for Allocating Resources among Locations		353
Alternative Gradual Commitments		353
Geographic Diversification Versus Concentration		354
Reinvestment and Harvesting		355
Noncomparative Location Decisions		356
 Looking to the Future		
Conditions That May Cause Prime Locations to Change		356
CASE: Carrefour		357
Endnotes		360
14	Export and Import	361
	CASE: SpinCent: The Decision to Export	362
Introduction		364
Exporting: Principles and Practices		365
Who are Exporters?		366
The Matter of Advantages		366
Characteristics of Exporters		367

Exporting: Motivation and Methods	368
Profitability	368
Productivity	369
Diversification	369
Export: Start-Up and Expansion	370
Incremental Internationalization	370
The Born-Global Phenomenon	371
The Influence of Time and Place	371
The Wildcard of Serendipity	372
Approaches to Exporting	372
Which Approach When?	373
 Point-Counterpoint	
Exporting E-waste: A Fair Solution?	374
Importing: Principles and Practices	378
Characteristics of Importers	378
Importing: Motivation and Methods	379
Import Drivers	379
Who Are Importers?	380
Importing and Exporting: Problems and Pitfalls	380
Financial Risks	381
Customer Management	381
International Business Expertise	382
Marketing Challenges	382
Top Management Commitment	382
Government Regulation	383
Trade Documentation	384
Importing and Exporting: Resources and Assistance	385
Public Agencies	386
Private Agents	387
Reconciling Opportunity and Challenge: An Export Plan	390
 Looking to the Future	
Technology Transforms International Trade	391
Countertrade	393
Costs	393
Benefits	394
CASE: The Borderfree Option: Going Global—Simplified	394
Endnotes	396

15 Direct Investment and Collaborative Strategies 397



CASE: Meliá Hotels International 398

Introduction	401
Why Export and Import May Not Suffice	402
When It's Cheaper to Produce Abroad	403
When Transportation Costs Too Much	403
When Domestic Capacity Isn't Enough	403
When Products and Services Need Altering	403
When Trade Restrictions Hinder Imports	403
When Country of Origin Becomes an Issue	404
Why and How do Companies Make Wholly Owned FDI	404
Reasons for Wholly Owned Foreign Direct Investment	404
Acquisition Versus Greenfield	405
Why Companies Collaborate	406
General Motives for Collaborative Arrangements	406
International Motives for Collaborative Arrangements	408
Forms of and Choice of Collaborative Arrangements	409
Some Considerations in Choosing a Form	409
 Point-Counterpoint	
Should Countries Limit Foreign Control of Key Industries?	410
Licensing	411
Franchising	412
Management Contracts	413
Turnkey Operations	413
Joint Ventures (JVs)	414
Equity Alliances	415
Why Collaborative Arrangements Fail or Succeed	415
Reasons for Failure	416
Helping Collaborative Operations Succeed	417
 Looking to the Future	
Growth in Project Size and Complexity	420
CASE: The oneworld Airline Alliance	421
Endnotes	425

16 The Organization of International Business 427

CASE: Organizing Global Operations: The "Gore Way" 428

Introduction	430
--------------	-----

Changing Times, Changing Organizations	430
Expanding Scope of IB	431
The Internet as a Design Standard	431
Managerial Standards	431
Social Contract	432
Change and Challenge: MNEs Respond	432
Classical Organization Structures	433
Vertical Differentiation	433
Horizontal Differentiation	435
The Functional Structure	435
Divisional Structures	436
Global Matrix Structure	439
Mixed Structure	440
Neoclassical Structures	440
The Challenge of Boundaries	440
The Goal of Boundarylessness	441
The Network Structure	442
Virtual Organization	443
Neoclassical Structures in Action	444
Pitfalls of Neoclassical Structures	444
 Point-Counterpoint	
The Hierarchical Structure: The Superior Format	445
Coordination Systems	447
Coordination by Standardization	448
Coordination by Plan	449
Coordination by Mutual Adjustment	450
Control Systems	451
Bureaucratic Control	451
Market Control	451
Clan Control	452
Control Mechanisms	452
Which Control System When?	453
Organizational Culture	453
A Key Piece of the Performance Puzzle	453
The Power of Common Cause	454
Developing an Organizational Culture	455
 Looking to the Future	
The Rise of Corporate Universities	456
CASE: Building a Magical Organization at Johnson & Johnson	458
Endnotes	460

• **PART SIX: MANAGING INTERNATIONAL OPERATIONS** 461

17 Marketing Globally 461

CASE: Tommy Hilfiger 462

International Marketing Strategies: Orientations, Segmentation, and Targeting 463

Marketing Orientations 464

Segmenting and Targeting Markets 466

Product Policies: Country Adaptation Versus Global Standardization 467

Why Firms Adapt Products 467

Alteration Costs 468

The Product Line: Extent and Mix 469

International Pricing Complexities 469

Potential Obstacles in International Pricing 469

Should Promotion Differ Among Countries? 472

The Push–Pull Mix 472

Some Problems in International Promotion 473

International Branding Strategies 475

Global Brand Versus Local Brands 476



Point-Counterpoint

Should Home Governments Regulate Their Companies' Marketing in Developing Countries? 477

Distribution Practices and Complications 479

Deciding Whether to Standardize 479

Internalization or Not? 480

Distribution Partnership 480

Distribution Challenges and Opportunities 481

Gap Analysis: A Tool for Helping to Manage the International Marketing Mix 482

Usage Gaps 483

Product-Line Gaps 484

Distribution and Competitive Gaps 484

Aggregating Countries' Programs 484



Looking to the Future

How Might International Market Segmentation Evolve? 485

CASE: Grameen Danone Foods in Bangladesh 486

Endnotes 491

18 Global Operations and Supply-Chain Management 493

CASE: Apple's Global Supply Chain 494

Global Supply-Chain Management 496

What is Supply-Chain Management? 496

Global Supply-Chain and Operations Management Strategies 497

Operations Management Strategy 497

Global Sourcing 499

Why Global Sourcing? 501

Major Sourcing Configurations 501

The Make-or-Buy Decision 502



Point-Counterpoint

Should Firms Outsource Innovation? 502

Supplier Relations 504

Conflict Minerals 504

The Purchasing Function 504

Information Technology and Global Supply-Chain Management 505

Electronic Data Interchange (EDI) 505

Enterprise Resource Planning/Material Requirements Planning 505

Radio Frequency ID (RFID) 505

E-commerce 506

Quality 507

Zero Defects 507

Lean Manufacturing and Total Quality Management (TQM) 508

Six Sigma 509

Quality Standards 509



Looking to the Future

Uncertainty and the Global Supply Chain 511

CASE: Nokero: Lighting the World 511

Endnotes 516

19 International Accounting and Finance Issues 517

CASE: GPS Capital Markets: In the Market for an Effective Hedging Strategy? 518

The Crossroads of Accounting and Finance 520

What Does the Controller Control? 520

Differences in Financial Statements Internationally	521
Differences in the Content of Financial Information	521
Factors Affecting Accounting Objectives, Standards, and Practices	522
Cultural Differences in Accounting	523
International Standards and Global Convergence	524
Mutual Recognition Versus Reconciliation	524
The First Steps in Establishing IFRS	525
The International Accounting Standards Board	525
 Point-Counterpoint	
Should U.S. Companies Be Allowed to Use IFRS?	526
Transactions in Foreign Currencies	527
Recording Transactions	527
Correct Procedures for U.S. Companies	528
Translating Foreign-Currency Financial Statements	528
Translation Methods	529
International Financial Issues	531
Capital Budgeting in a Global Context	531
Internal Sources of Funds	533
Global Cash Management	534
Foreign-Exchange Risk Management	536
Types of Exposure	536
Exposure-Management Strategy	537
 Looking to the Future	
Will IFRS Become the Global Accounting Standard?	539
CASE: H&M: The Challenges of Global Expansion and the Move to Adopt International Financial Reporting Standards	541
Endnotes	543
20 International Human Resource Management	545
CASE: Globalizing Your Career	546
International Human Resource Management	548
The Strategic Role of IHRM	550
IHRM's Mission	551
The Perspective of the Expatriate	551
Who's Who?	551
Trends in Expatriate Assignments	552
The Economics of Expatriates	554
The Enduring Constant	554
Staffing Frameworks in the MNE	554
The Ethnocentric Framework	555

The Polycentric Staffing Framework	556
The Geocentric Staffing Framework	558
Which Staffing Framework When?	559
Expatriate Selection	560
Technical Competence	560
Self-Orientation	560
Others-Orientation	561
Resourcefulness	561
Global Mindset	561
Expatriate Preparation and Development	562
Pre-Departure Preparation Programs	563
In-Country Development Programs	564
Family Matters	564
 Point-Counterpoint	
English: Destined to Be the Global Language?	565
Expatriate Compensation	567
Types of Compensation Plans	568
Components of Expatriate Compensation	569
Compensation Complications	570
Expatriate Repatriation	570
Repatriation Challenges	571
Improving Repatriation	571
Expatriate Failure	572
The Costs of Failure	572
The Wildcard	573
 Looking to the Future	
I'm Going Where? The Changing Locations of International Assignments	573
CASE: Tel-Comm-Tek: Selecting the Managing Director of its Indian Subsidiary	574
Endnotes	577
Glossary	579
Company Index	589
Name Index	595
Subject Index	614

Preface

This textbook is one of the best-selling U.S. and worldwide international business (IB) textbooks. Widely used in both undergraduate and MBA level courses, this text has had authorized translations into Albanian, Chinese, Macedonian, Russian, Spanish, Korean, and Thai. Its first edition in 1976, according to many professors, defined the IB field. Its subsequent 14 editions have set the global standard for studying IB's environments and operations. Students, faculty, and managers have praised our text for its compelling balance between rigorous, authoritative theory and meaningful practice within the context of a fresh, current analysis of IB. The elements of success that have driven this performance anchor our efforts to make this 16th 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.

WHAT'S NEW TO THE SIXTEENTH EDITION?

Ongoing trends and new development in the global business environment called for us to rethink and revise our interpretations of the environments of operations of international business. Incorporating the corresponding changes convinced the publishers and the authors of the usefulness of publishing a 16th edition.

- **Global Changes**

IB, probably more so than any other subject, needs updating because of the number of and rapidity of global changes. The period since our last edition was no exception. Among the many changes we have referenced in our text are the spread of mosquito-borne epidemics (Zika, Ebola, dengue fever, and yellow fever); changes in national borders (e.g., Crimea now a part of Russia rather than the Ukraine); the rise of ISIS and its extended terrorism; the expanding scale and scope of technology; oil technology that has altered global supply locations and prices; the evolving role of Bitcoins for international currency exchange and investment opportunities; the emergence of disruptive technologies such 3-D printers, robotics, and artificial intelligence; the opening of U.S.–Cuban diplomatic exchanges; the advent of negative interest-rate policies in many Western markets; the termination of an embargo on Iran; the near breakup of certain countries (e.g., the United Kingdom and Spain); the use of corporate inversions to reduce taxes; ongoing ups and downs by prominent emerging markets; accelerating sophistication of communication systems; decreasing degrees of political and economic freedom throughout the world; greater agreement that the global climate is warming; the game changing implications of social media; an almost unprecedented refugee movement into Europe; and greater support in many countries for more national sovereignty leading to the possible breakup of regional economic groups.

- **Theories and Evidence to Explain IB and Globalization**

It is now over 40 years since we started writing this text's first edition. We can remember when the Academy of International Business (AIB), the main IB academic organization, attracted fewer than 40 attendees for its annual meeting; now it routinely

draws more than a thousand. Journals with an emphasis on international business were virtually nonexistent; thus the few people working directly in the field had to depend on discipline- and functional-based journals as outlets for their research. We all know how this has changed, which has, on the one hand, helped us to understand the global business environment in innovative, exciting ways. Nevertheless, the expanding scale of globalization and IB growth fuels such an abundance of published materials that academicians have had to specialize in narrower areas to stay abreast of relevant research. The growth has also created a challenge for authors, such as us, to keep sufficiently up to date on the breadth of research being published on all the functional and disciplinary topics we cover in an introductory text. We are the first to admit that we cannot, but, at the same time, when we have revised for each new edition, we have discovered work that goes well beyond a slight movement in existing knowledge frontiers. It is gratifying for us to delve deeper into emerging trends such as those we described above, and thus we have added significant new material to the 16th edition.

- **Reduced Length**

Over the years, we received sporadic objections to the length of our text. And complicating matters was the sense that as the text expanded, students increasingly preferred learning in shorter, focused bursts. Hence, we set a goal of reducing the text length by 200 pages without sacrificing content, coverage, or quality; we more than met our goal. We did this partially by shifting end notes to an easily-accessed online location, removing all cartoons because they did not sufficiently enhance students' learning, and reducing tables of data that quickly became obsolete. However, to our surprise, our biggest reduction by far was from tightening our prose. Completing chapters very quickly to reach a deadline for a two-year cycle had caused us to be much too wordy and to lead us to undue redundancy among our chapters. We quickly learned that reducing 200 pages was more time consuming than adding 200, but we feel that the text is now far more engaging, interesting, and readable.

- **Improved In-Text Learning Aids**

1. We aligned our objectives at each chapter's opening with major headings within the chapters. This meant, in many cases, reorganizing the materials within the chapter. However, this should help students master materials more effectively and efficiently. Further, the change has permitted the generators of the corresponding test bank to key questions better with learning objectives.
2. We already had marginal notes to refer back to previous chapters. We expanded those considerably and now refer to the specific pages where students can find earlier materials.
3. We dropped the "Geography and International Business" feature. It had not appeared in all the chapters, and we incorporated the coverage into specific parts of the chapters.
4. We dropped the "Summary" and "Key Terms" sections from the end of our chapters. Our reasoning is that our marginal notes cover all the summary points in greater detail and next to the material being covered. All key terms are shown in bold and included in the glossary, thus we eliminated this redundancy.

5. We updated all of our cases. In addition, we replaced seven cases with new ones as follows:

Chapter 4: Economic Environments of the West: Problems, Puzzles, and the 4th Industrial Revolution

Chapter 6: The Evolution of Taiwan's International Trade

Chapter 7: Should U.S. Imports of Prescription Drugs from Canada be Widened?

Chapter 10: Venezuela's Rapidly Changing Currency

Chapter 11: Tax Wars: Pfizer Versus the U.S. Government

Chapter 14: The Borderfree Option: Going Global—Simplified

Chapter 16: Organizing Global Operations: The "Gore Way"

- **Improved Chapter Placements**

Adopter feedback led to adjusting the sequence of chapters. Specifically, we repositioned Chapter 11, Globalization and Society. Its new slot is Chapter 5, thereby effectively expanding our coverage of the environments of IB.

- **Limiting Authors' Names**

Early on, we observed that students too often thought that they needed to memorize the names of all the authors who were cited. Thus, we have made it a point to cite only classic authors, such as Adam Smith. If students (or instructors) want to know the origin of materials, they can find this information in the end note section.

BUILDING ON SUCCESS

For the record, fewer than one percent of textbooks reach 16 editions. The longevity of this text signifies its successful adaptation to the changing domain of globalization and IB. Indeed, sustainability has become a byword within the global economy. Sustainability, such as for a text, calls for building on what works well and eliminating what does not. Here are some highlights of the 16th edition building blocks.

FOCUSING ON BOTH MACRO AND MICRO PERFORMANCE

We have always, and steadfastly continue to present materials from a broader perspective than company performance. First, although IB affects nearly all business, many students will be only tangentially involved. Second, knowledge of IB supports good citizenship, helping students interpret macro policies that affect their personal lives and career ambitions.

RESPONDING TO UPDATED LITERATURE

From the beginning, we have constantly assessed academic and practitioner publications to stay abreast of relevant issues and events. We have made no exception for this edition. A review of our exhaustive endnotes shows a citation mix of classic treatises along with significant IB materials that have been published since the preceding edition. Further, the companies cited in the "Company Index and Trademarks" section come from a variety of industries—large and small, U.S. and non-U.S.—and the list continues to be comprehensive and contemporary.

RELAYING PERSONAL EXPERIENCES

We regularly interact with IB stakeholders—managers, students, professors, and people affected by trade and other international events—through our teaching of degree-earning and executive students, attendance at academic and civic meetings, and foreign travel. For example, since the 15th text edition was published, we have traveled collectively to 25 countries, largely dealing with IB managers in each. These exchanges, taking place in every region of the world, provide insights and anecdotes that develop new materials and prioritize coverage via chapter content and cases. We believe no other textbook comes as close to effectively blending a comprehensive review of international business theory with exhaustive attention to what happens in the many parts of the world.

INCORPORATING CASES

We maintain the inclusion of a case to open and close each chapter. With few exceptions, we wrote the cases ourselves. When we did not, we worked closely with the authors to assure that the focus of each fit precisely with chapters' materials. These cases span the globe and engage an extensive range of topics from environmental, institutional, country, industry, company, and individual perspectives. They also include a wide range of company perspectives, from large MNEs to small exporters, from old-line manufacturers to emergent cyber businesses, and from product manufacturers to service providers.

The opening cases set the stage for the chapters' major issues, highlighting themes and ideas that are then covered throughout the chapter. These also include questions to guide students to real situations as they read the chapters. The closing cases, also anchored with questions, integrate the ideas and tools presented in the chapter and call upon the students to analyze issues and propose actions.

POINT-COUNTERPOINT

To reinforce our strong applications orientation, we carry on a feature in every chapter that brings to life a major debate in contemporary IB and globalization. We use a point-counterpoint style to highlight opposing viewpoints that managers and policymakers face when trying to make sense of vital issues. The give and take between two sides reinforces this textbook's effort to link theory and practice.

LOOKING TO THE FUTURE

As in previous editions, 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 the ideas discussed in the chapter in a way that prompts students to engage their imagination about the future of the world.

MAPS

Geographic literacy is essential in international business. Thus, we have maintained an Atlas, now located immediately after this Preface. Not only does it show locations, it includes the almost equally important pronunciations of the countries and

territories that are included. In addition to the Atlas, we have an abundance of maps throughout that are visual presentations of materials, such as the major locations of a country's export markets.

ENGAGING IN-TEXT LEARNING AIDS

To support students' concentration on fundamental information and lessons, we introduce each new major term in bold. These terms are also included in a Glossary to help them recall definitions when they see these terms in later chapters. We use marginal notes to summarize discussions, and we include marginal chapter review notes to lead students back to earlier material that helps them fathom later discussions.

INSTRUCTOR SUPPLEMENTS

Instructors can access the following downloadable supplemental resources by signing into the Instructor Resource Center at www.pearsonhighered.com/educator.

- **Instructor's Manual**
- **Test Item File and TestGen® Computerized Test Bank**—includes multiple choice, true/false, short answer, and essay questions that are tagged to Learning Objectives, Skill, Difficulty, Learning Outcomes, and AACSB Learning Standards to help measure whether students are grasping the course content that aligns with AACSB guidelines.
- **PowerPoint Slides**
- **Image Library**

Need help? Our dedicated Technical Support team is ready to assist instructors with questions about the media supplements that accompany this text. Visit support.pearson.com/getsupport for answers to frequently asked questions and toll-free user-support phone numbers.

ACKNOWLEDGMENTS

PINPOINTING OUR REVIEWS

Although we have always depended on outside reviewers to give us advice, the process had several shortcomings in terms of our recent needs. The most basic one is that instructors were asked to comment on the entire book, which led to responses that were too general to help us sufficiently, such as "I've used the book for several years and am happy with it." Or, reviewers had never adopted the book, thus the responses were obviously based on a mere scanning of materials without any specific substantive suggestions. There was a tendency to propose additions without eliminations that would compensate for them. In addition, some of the recommendations were made by users who to go into greater depth in an area without considering the breadth required for our book. Given that the reviews came to us anonymously, we could not speculate on the type of student market about which they were evaluating the text.

For our present edition, we received early on three anonymous reviews, thus we cannot acknowledge them by name. We then solicited people who are well-known scholars to review only one chapter that corresponded to their major

expertise. We asked them to not only inform us of errors, but also to suggest important omissions. In addition, we needed their recommendations on where we could cut material in order to meet the demands of the market in terms of length. We cannot thank the following people enough for making thorough, practical, and insightful recommendations.

Benjamin Bader, Lüneburg University (Germany)
Mary Yoko Brannen, University of Victoria (Canada)
F. Greg Burton, Brigham Young University (USA)
Jean J. Boddewyn, Baruch College (USA)
Fidel León Darder, Universitat de València (Spain)
Tom Foster, Brigham Young University (USA)
Simon Greathead, Brigham Young University (USA)
Lichung Jen, National Taiwan University (Taiwan)
Steve Katsaros, Founder and CEO of Nokero (USA)
Jeffrey A. Krug, Bloomsburg University (USA)
Sumit K. Kundu, Florida International University (USA)
Shige Makino, Chinese University of Hong Kong (Hong Kong)
Ali R. Manbeian, Managing Partner, GPS Capital Markets Inc. (USA)
Kurt Norder, University of Delaware (USA)
Jon Jungbien Moon, Korea University (Korea)
Terence Mughan, Royal Roads University (Canada)
Daniel Rottig, Florida Gulf Coast University (USA)
Manuel G. Serapio, University of Colorado Denver (USA)
Saeed Samiee, University of Tulsa (USA)
Cristina Villar, Universitat de València (Spain)
Sharon Watson, University of Delaware (USA)

In addition to the reviewers cited above, there have been countless individuals who have helped us through the years. 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.

We would also like to acknowledge people whom we interviewed in writing cases. These are Brenda Yester (Carnival Cruise Lines); Omar Aljindi, Nora al Jundi, and Talah Tamimi (Saudi Arabia's Dynamic Culture); Mauricio Calero (Ecuador: A Rosy Export Future?); Raul Arguelles Diaz Gonzales and Francisco Suarez Mogollon (Walmart Goes South); Jonathan Fitzpatrick, Julio A. Ramirez, Arianne Cento, and Ana Miranda (Burger King); several executives at American Airlines and oneworld who wish to remain anonymous (The oneworld Airline Alliance); and Ali R. Manbien (GPS Capital Markets Inc). In addition, we would like to thank several people who authored or coauthored cases for us: Mary Yoko Brannen and Terence Mughan at the University of Victoria and Royal Roads University for Tesco PLC: Leveraging Global Knowledge (Chapter 2), various executives at Walmart for their assistance with Walmart Goes South (Chapter 8), Fidel León-Darder and Cristina Villar at Universitat de València for Meliá Hotels International (Chapter 15), Jon Jungbien Moon at Korea University for Grameen Danone Foods in Bangladesh (Chapter 17), and Manuel Serapio at the University of Colorado Denver and Steve Katsaros, founder and CEO of Nokero for Nokero: Lighting the World (Chapter 18); others who helped with administrative and research matters include Ian G. Daniels, Maddison Daines, Lisa Curlee, Allison Johnson, and Katie Cooper Redding.