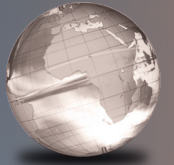


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International Business

A Managerial Perspective

EIGHTH EDITION

Ricky W. Griffin • Michael W. Pustay

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To the memory of my father, James P. Griffin, who provided
encouragement and guidance in ways he never imagined.

R. W. G.

To the newest member of our family,
Quinlan Claire Murphy Pustay.

M. W. P.

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Preface

We've taught International Business courses for 25 years and enjoyed every moment of the experience. From the instructor's perspective, the joy and excitement of the course lies in its importance and dynamism. Its importance cannot be denied. The jobs, careers, and livelihoods of virtually every human being on the planet are affected by international commerce. For some, that commerce represents an opportunity; for others, a threat. Almost a third of the world's economic activity is attributable to international trade, and foreign direct investment has surpassed \$20 trillion. Nor can its dynamism be denied. Think of the changes that have occurred in the two years between the publication of the seventh edition and the eighth edition of this text: civil war in Syria, an incipient global currency war, a complete upheaval in world energy markets as a result of hydraulic fracturing, shifts in factory location decisions favoring Mexico over China, a new member joining the European Union, China's aggressive search for natural resource security, Nokia's shifting from mobile market leader to dead-in-the-water (at least in Wall Street's view), to name but a few examples.

From the student's perspective, however, this dynamism—and the sheer breadth of the subject matter—can be intimidating. We discuss every region of the world and draw on every business discipline—accounting, marketing, management, finance, supply chain management, MIS—and numerous liberal arts disciplines—economics, geography, anthropology, sociology, history, international relations, political science, and the law. It's not surprising that students can feel overwhelmed by the magnitude of the course. We have striven to reduce students' fears of not being able to master this extensive material by providing clear, concise discussions of the principle concepts and challenges of international business and by offering numerous examples of these issues in action.

Our vision in writing this book is to prepare students to be effective participants in the worldwide marketplace. That was the vision we laid out in the preface of the first edition of this book, and it remains so in the eighth. We noted that many of the existing textbooks are written in needlessly technical terms and seem to be concerned only with students who are specializing in international business. However, all students—even those who will never have an overseas assignment—need to be knowledgeable about the global economy.

That is why we feel so strongly about our vision for this book. We want students to attain “cultural literacy” in international business. We want them, for example, to be able to speak comfortably with a visiting foreign exchange student or to ask insightful questions of a visiting executive from a foreign-headquartered multinational corporation. For many students, this textbook and the course that it accompanies is just the first step in a long journey to being an effective businessperson and an informed citizen in a globalizing world. We hope in writing this textbook that that first step will be made a bit easier, a bit more informed, and a bit more exciting.

Like the previous seven editions, we have maintained our managerial approach to international business with an emphasis on skills development, emerging markets, and geographical literacy.

New To The Eighth Edition

The eighth edition features new cases, boxes, and analyses reflecting the latest challenges and opportunities confronting international businesses. More specifically, the following content is new or revised to reflect the latest global trends:

- The pressures on multinational organizations to consider the impact of their actions on the natural environment and on the general welfare of society continue to increase. We have introduced a new context box, “**People, Planet, and Profits**,” to address the challenges that international businesses face in promoting their triple bottom lines.

- The international business course at most colleges and universities encompasses both the external environment and the internal environment of international businesses. We have introduced several new boxes and cases and updated others that focus on changes in the external environment that create opportunities and challenges for firms competing in the international market place. These new cases and boxes include discussions of territorial disputes in the South China Sea, upheavals in the world energy market as a result of fracking, the opening up of the fabled Northwest Passage, expansion of the Panama Canal, and the impact of rising wages in China.
- New and updated profiles of the challenges and opportunities provided international firms as they confront and master the complexities of the international marketplace, including new cases and boxes featuring Apple, Huawei, Anglo American PLC, Foxconn, and McDonalds, and updated treatments of LVMH, Lenovo, Tata, Nokia, Disney, Telefónica, Unilever, and Danone, among others.
- New and updated analyses of the impact of globalization on competition within industries, including the global wine industry, the global flower industry, the international cinema market, Germany's Mittelstand, and the international airline industry.
- New and updated cases exploring how firms address cultural, legal, and technological differences among countries. Students gain deeper and more nuanced understandings of the politics, culture, and social problems of individual countries through in-depth examination of issues such as Russia and the rule of law, the European Union's implementation of the Treaty of Lisbon, Brazil and poverty reduction, Japan and its cultural and demographic challenges, the hidden role of the Communist Party in Chinese businesses, U.S. retailers and Chinese consumers, Islamic finance, the GLOBE leadership project, and the growth of unionization activity in China.
- New and updated examples and cases assessing the ethical and social responsibilities of international businesses and international businesspeople, including Foxconn, disposal of e-waste, BP and the Gulf oil spill, green energy and free trade, DuPont's quest for zero waste, Maersk and pollution in Hong Kong harbor, the Chad pipeline, the Siemens bribery scandal, and Grameen Bank.
- New and updated examples of international trade and investment conflicts and the challenges they present international business practitioners, including Huawei's struggles to enter the U.S. market, the global currency war, rare earths, tax shelters, jumbo jet subsidies, sovereign wealth funds, and trade in counterfeit goods.
- The eighth edition also provides up-to-date coverage of the impact of how recent natural disasters and political upheavals have affected international business. Examples include the earthquake and tsunami that shattered Japan and the resultant impact on global supply chains, Toyota's massive recalls and quality problems, and the political unrest that swept through the Middle East beginning in 2011.
- All data and other statistical information in the book have been thoroughly updated, including international trade statistics, exchange rates, and expatriate costs of living in various global business centers.
- New **assisted-graded questions** that students can complete and submit via MyManagementLab are provided at the end of each chapter.
- New **online, interactive simulations** created just for international business courses engage students and help them understand how international business concepts apply in realistic situations. Topics include: globalization, international ethics, legal differences, offshoring, global marketing, and tariffs, subsidies, and quotas. Simulations are accessible in MyManagementLab.

Pedagogically, we have retained four content boxes that highlight coverage of current issues related to technology, entrepreneurship, and conducting business with a global perspective:

VENTURING ABROAD Exposes students to the opportunities and challenges of conducting business outside their home country.

E-WORLD Provides insights into the impact of e-commerce on how business is conducted internationally.

BRINGING THE WORLD INTO FOCUS Helps students understand the historical, cultural, and political contexts of international business.

EMERGING OPPORTUNITIES Highlights challenges and opportunities in emerging international markets.

With the addition of our new box, **PEOPLE, PLANET, AND PROFITS**, we offer our readers insights into many of the most important issues confronting international business practitioners today.

We also added a valuable new in-chapter feature called **IN PRACTICE**. You'll find an **IN PRACTICE** at the end of each major section of every chapter. This feature consists of two concise major “take-away” points from the preceding section and a thought-provoking question for further consideration.

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Professor Pustay is a member of numerous professional organizations, including the Academy of International Business, the American Economic Association, the Association for Canadian Studies in the United States, and the Transportation Research Forum. He has served as a consultant for a variety of public and private organizations, including the U.S. Department of Transportation, the Small Business Administration, the Civil Aeronautics Board, and Reliant Energy.

CHAPTER 1

An Overview of International Business



PCN Photography/Alamy

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO:

1. Discuss the meaning of international business.
2. Explain the importance of understanding international business.
3. Identify and describe the basic forms of international business activities.
4. Discuss the causes of globalization.
5. Comprehend the growing role of emerging markets in the global economy.

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THE BUSINESS OF THE OLYMPICS

Every two years, the world's attention turns to the Olympic Games. Given that international business and the global economy play such a dominant role in the world today, it is not surprising that the Olympics have come to reflect international business at its most intense. The games are governed by the International Olympic Committee (IOC), which is based in Switzerland. The IOC decides where the games will be held and which sports will be represented, and it oversees the selection of judges and referees. Each country that wants to send athletes to compete in the games establishes a national committee to organize its Olympic effort. These committees are supervised by and report to the IOC.

Potential host cities must give elaborate presentations to the IOC and make substantial commitments in terms of facilities, a volunteer workforce, and related organizational support. For example, as part of their winning bids, Japan promised to build a new high-speed rail line between Tokyo and Nagano, the site of the 1998 winter games, while Greece's proposal featured a new ring road, subway system, and airport in Athens for the 2004 Summer Olympics. China invested more than \$38 billion on a variety of projects, including 37 new or refurbished sports facilities, transportation improvements, and communications upgrades, for the 2008 Beijing games. The British government spent £9.3 billion to build Olympic facilities and improve the transportation network serving the 2012 games, while the Russian government has budgeted \$50 billion for the 2014 Winter Olympics in Sochi.

The infighting among countries to be selected as the games' host is vicious. French President Jacques Chirac's pique over London's selection instead of Paris as the host for the 2012 Summer Olympics intensified the squabbles between France and the United Kingdom over European Union (EU) policies dealing with agriculture, taxation, and foreign affairs. China threatened a trade war with the United States after the U.S. Senate passed a resolution that hurt Beijing's chances to host the summer games in 2000, a prize eventually seized by Sydney, Australia. (Beijing was later awarded the 2008 games.) After Salt Lake City lost its bid for the 1998 games, the city's local organizing committee launched a massive campaign to procure the 2002 games. Unfortunately, its efforts included widespread gift-giving and the lavish entertaining of IOC delegates, which crossed ethical boundaries. As these facts became public, they triggered a worldwide cry for reform of the IOC.

Why would a city want to host the Olympic Games? Most compete for the privilege because the games would thrust them into the international spotlight and promote economic growth. Further, the tourism benefits are long lived; for example, skiers, skaters, and snowboarders continue to enjoy the facilities at previous Olympic sites such as Turin, Nagano, Lillehammer,

Calgary, Albertville, and Lake Placid, pouring money into the local economies long after the Olympic torch has been extinguished. The games also are frequently a catalyst for improving a city's infrastructure. For instance, the high-speed rail line between Tokyo and Nagano halves the travel time between the two cities—a benefit that continues for local residents and for future visitors, as does Athens's new ring road, airport, and subway system. London's Olympic Village was converted to 2,800 apartments after the completion of the 2012 games, providing much-needed housing in one of the world's most expensive real estate markets.

Because of the high cost of running the Olympics, both the IOC and national Olympic committees are always alert for ways to generate revenue. Television coverage provides one significant source of revenue. NBC paid \$1.27 billion for the U.S. broadcast rights for the 2000 Sydney summer games and the 2002 Salt Lake City winter games. It then shelled out an additional \$2.3 billion to lock up the U.S. broadcast rights for the 2004, 2006, and 2008 games and paid \$2.2 billion for the 2010 and 2012 games—even though their sites had not yet been determined. The broadcaster followed a similar strategy in 2011, successfully offering \$4.38 billion for rights to broadcast the 2014, 2016, 2018, and 2020 games in the United States. Broadcast rights for Europe, Australia, Asia, and the rest of the Americas sold for smaller but still breathtaking amounts to local broadcasters. NBC and these broadcasters, in turn, sold advertising time to companies eager to market their goods to Olympic fans throughout the world.

Not surprisingly, capturing viewers in emerging markets is an important part of the IOC's growth strategy. CCTV, the state-owned TV network, paid \$100 million for local broadcasting rights for the 2008 Beijing Olympics. Bidding for TV spots on Chinese television was intense. Yili, a Chinese milk producer, paid CCTV \$2.7 million for four 15-second advertisements for the Chinese market; in comparison, NBC charged \$800,000 for 30-second commercials in the U.S. market.

Another important source of revenue for the IOC and for national committees is corporate sponsors, who wish to capture the prestige and visibility of being associated with the games. The highest-profile level—and, at \$60 to \$80 million, the most expensive—is that of "worldwide partner," a designation valuable to firms that market their products to consumers throughout the world, such as Coca-Cola, McDonalds, Acer, Panasonic, and Samsung. The primary benefit of worldwide partnership is that the partners get priority advertising space during Olympic broadcasts, if they choose to buy it. The worldwide partnership program generated \$957 million during the 2009–2012 Olympic cycle.¹ ■

The millions of dollars spent on the Olympics by television networks and corporate advertisers reflect the internationalization of business—the result of the desire of firms such as Coca-Cola, Panasonic, and Samsung to market their products to consumers worldwide. The forces that have made the Olympics a growing international business are the same forces that affect firms worldwide as they compete in domestic and foreign markets. Changes in communications, transportation, and information technology not only facilitate domestic firms' foreign expansion but also aid foreign companies in their invasion of the domestic market. These trends have accelerated during the past decade as a result of the explosive growth of e-commerce, the reduction in trade and investment barriers sponsored by organizations such as the World Trade Organization and the EU, and the growing importance of emerging markets such as China and India.

The global economy profoundly affects your daily life, from the products you buy to the prices you pay to the interest rates you are charged to the kind of job you hold. By writing this book, we hope to help you become more comfortable and effective in this burgeoning international business environment. To operate comfortably in this environment, you need to learn the basic ideas and concepts—the common body of knowledge—of international business. Further, you must understand how these ideas and concepts affect managers as they make decisions, develop strategies, and direct the efforts of others. You also need to be conversant with the fundamental mechanics and ingredients of the global economy and how they affect people, businesses, and industries. You need to understand the evolution of the global economy and the complex commercial and political relationships among Asia, Europe, North America, and the rest of the world.

To help ensure your future effectiveness in the international business world, we plan to equip you with the knowledge, insights, and skills that are critical to your functioning in a global economy. To that end, we have included hundreds of examples to help demonstrate how international businesses succeed—and how they sometimes fail. You also will read tips and extended examples about global companies in special features called “Bringing the World into Focus,” “E-World,” “Emerging Opportunities,” “People, Planet, and Profits,” and “Venturing Abroad,” and you will have the chance to practice your growing skills in end-of-chapter exercises titled “Building Global Skills.”

What Is International Business?

International business consists of business transactions between parties from more than one country. Examples of international business transactions include buying materials in one country and shipping them to another for processing or assembly, shipping finished products from one country to another for retail sale, building a plant in a foreign country to capitalize on lower labor costs, or borrowing money from a bank in one country to finance operations in another. The parties involved in such transactions may include private individuals, individual companies, groups of companies, or governmental agencies.

How does international business differ from domestic business? Simply put, domestic business involves transactions occurring within the boundaries of a single country, whereas international business transactions cross national boundaries. International business can differ from domestic business for a number of other reasons, including the following:

- The countries involved may use different currencies, forcing at least one party to convert its currency into another.
- The legal systems of the countries may differ, forcing one or more parties to adjust their practices to comply with local law. Occasionally, the mandates of the legal systems may be incompatible, creating major headaches for international managers.
- The cultures of the countries may differ, forcing each party to adjust its behavior to meet the expectations of the other.
- The availability of resources differs by country. One country may be rich in natural resources but poor in skilled labor, whereas another may enjoy a productive, well-trained workforce but lack natural resources. Thus, the way products are produced and the types of products that are produced vary among countries. (“Bringing the World into Focus” provides additional insights into these issues.)

In most cases, the basic skills and knowledge needed to be successful are conceptually similar whether one is conducting business domestically or internationally. For example, the need for marketing managers to analyze the wants and desires of target audiences is the same regardless

BRINGING THE WORLD INTO FOCUS

BORDERS DO MATTER

A decade ago, many self-proclaimed business gurus announced the coming of the boundaryless global economy—one in which national borders were superfluous and irrelevant. It would be hard to find a concept more naïve or oblivious to the realities of doing business internationally. The simple truth is that boundaries and national borders do matter. Nations, defined by those boundaries, have different legal systems and different laws. They have different political systems and social structures. Cultural values differ among the citizens of different nations. Taxes, the price of labor, land, and other resources, and the requirements for establishing a business vary across nations. If we did not have borders, the need for a separate international business course would disappear. We could just study business.

The CAGE model developed by Pankaj Ghemawat, of IESE Business School in Barcelona, is a useful framework for understanding the operating challenges facing international businesses because of these national differences:

- *Cultural distance* (the “C” in CAGE) refers to differences in cultural, linguistic, religious, and social values that can affect the way firms do business within a country. Chapter 4 focuses on important elements of these cultural differences.
- *Administrative distance* refers to differences in the public administration of countries. It can be affected by past colonial ties, common legal heritages, use of a common currency, political alliances, or attitudes toward the proper balancing between the role of the private sector and the role of the public sector. Chapter 3 focuses on many of these differences.



- *Geographic distance* refers to the physical, communications, and transportation links between countries and how the geographic connectedness of countries affects their economic integration. Chapter 2 focuses on the economic geography of the world marketplace.
- *Economic distance* refers to the differences in the economic resource bases of countries. Although natural resources are a component of economic distance, human resources, infrastructure, creation of new knowledge, and promotion of technological innovation are in fact much more important causes of economic distance. Chapter 6 analyzes how these economic differences affect the nature and level of countries’ participation in the global marketplace.

One of the primary challenges facing international business practitioners is formulating and implementing strategies that recognize and then use these differences to create competitive advantages for their firms. This may be as simple as purchasing labor-intensive inputs from countries where wages are low to reduce the costs of necessary components. It may be as complex as restructuring how the firm is organized or how it does business to benefit from global efficiencies while respecting and responding to local culture, laws, and social norms.

Sources: Based on Pankaj Ghemawat, “Distance Still Matters,” *Harvard Business Review*, September 2001; Pankaj Ghemawat, “Managing Differences: The Central Challenge of Global Strategy,” *Harvard Business Review*, March 2007.

of whether the managers are engaged in international business or domestic business. However, although the concepts may be the same, there is little doubt that the complexity of skills and knowledge needed for success is far greater for international business than for domestic business. International businesspeople must be knowledgeable about cultural, legal, political, and social differences among countries. They must choose the countries in which to sell their goods and from which to buy inputs. International businesses also must coordinate the activities of their foreign subsidiaries, while dealing with the taxing and regulatory authorities of their home country and all the other countries in which they do business.

In Practice

- When doing business internationally, business persons must be aware of the differences between their home market and the host market.
- The CAGE model provides a useful framework for classifying these differences, or “distances,” as Ghemawat calls them.

For further consideration: Which element of “distance” is most important—cultural, administrative, geographic, or economic? Or does “importance” vary according to the issue at hand?

Why Study International Business?

There are many different reasons why today’s students need to learn more about international business. First, almost any large organization you work for will have international operations or be affected by the global economy. You need to understand this increasingly important area to better assess career opportunities and to interact effectively with other managers. For example, in your first job assignment, you could be part of a project team that includes members from