Instructor's Manual

International Business

Seventh edition

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Contents

Introduction

This instructor's manual has been developed as a teaching and examination aid for *International Business*, Seventh edition (Pearson Education, 2012) by Simon Collinson, Rajneesh Narula and Alan M. Rugman. In each section of the resource manual, there is detailed material that can be used in teaching each chapter. This material includes (a) a list of the chapter's objectives; (b) a summary of the chapter material; (c) a chapter outline that presents all headings and subheadings in the chapter; (d) a list of all the case studies; (e) a lecture outline that provides information and material related to each of the major areas of the chapter outline; (f) answers to all the review and discussion questions at the end of the chapter and (g) answers to all the questions that accompany the Real Cases at the end of the chapter. We have made every effort to ensure that this resource manual is accurate and complete. However, if you find any mistakes or inconsistencies, please convey the information to the first author of this manual at:

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Thank you in advance for your comments and help.

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PART ONE

The World of International Business

CHAPTER 1

An Introduction to International Business

Chapter objectives

1. Define the boundaries of the field of international business in an introductory overview of the main themes of this text.

2. Examine how worldwide economic and political changes have driven globalization and shape the way international business is conducted.

3. Highlight innovation and technology as major factors underlying global economic growth and greater interdependence between firms and countries.

4. Introduce some of the main actors that feature throughout this text: multinational enterprises and small and medium-sized enterprises, which are at the core of spreading globalization; value chains and networks, which connect firms globally; and institutions (national and global), which shape how these other actors evolve.

Chapter summary

1. There is little doubt that we live in a world defined by globalization. Globalization, however, remains a vague concept, used by different people in different ways. This text defines economic globalization as the growing interdependence of locations and economic actors across countries and regions.

2. International business is the study of transactions taking place across national borders for the purpose of satisfying the needs of individuals and organizations. Two of the most common types of international business activity are export/import and foreign direct investment (FDI). In recent years both have been on the rise. Much of this is a result of large multinational enterprises (MNEs).

3. Small and medium-sized enterprises (SMEs) often function as the backbone of large MNEs, efficiently providing goods and services that are integrated into the latter's production process. SMEs also compete with MNEs in niche markets. SMEs are often more flexible then MNEs but struggle to match MNEs in terms of resources.

4. Institutions are defined as "sets of common habits, routines, established practices, rules, or laws that regulate the interaction between individuals and groups." Understanding institutions, both formal and informal, is important for both firms and employees, so they can adjust their behaviors accordingly.

5. Trade regulation has become an important issue in international business. Today the World Trade Organization (WTO) is the major body responsible for governing the international trading system.

6. There are two ways to measure FDI: FDI stock and FDI flow. Inward FDI flow is money coming into a country during the reporting year, from foreign-owned MNEs which have their subsidiaries in the recipient county. Outward FDI flows are monies going out from firms that are registered in the home country to another country through their subsidiaries abroad. FDI flow is different from FDI stock: the latter looks at the accumulation of FDI over time, whereas FDI flow only looks at FDI inflow or outflow in one reporting year. FDI stock is a more reliable indicator of FDI activity in countries.

7. International production and trade are increasingly organized within global value chains (GVCs) of global production networks (GPNs) where the different stages of the production process are located across different countries. Due to the globalized nature of some markets, it is advantageous for firms to develop products in different countries to benefit from home countries' location advantages.

Chapter outline

Introduction

What is international business?

Globalization

- The outcomes of globalization
- Understanding interdependence in globalization
- Regional integrations
- Mapping globalization

Technology and innovation

- New technologies
- The knowledge-intensive, multi-technology firm

Socio-political developments

What are institutions?

- Institutions and supranational agreements
- Globalization and liberalization

Multinational Enterprises

- Proto-globalization and the MNE in historic context
- The industrial revolutions and the growth of private firms

Foreign direct investment

- Measuring FDI and MNE activity
- MNEs before World War II

The rise of the modern MNE

International business in the modern era

1950–90: the rise of the triad

1990–2014: the rise of new players and forms of activity

Modularization, outsourcing, and value chains

The continuing importance of the state-owned enterprise

Emerging economy MNEs—significant but exaggerated

Dominance of the triad continues

Small and medium-sized enterprises

The fragmented firm: global value chains and production networks

Lecture outline

A. Introduction and what is international business?

1. International business is the study of transactions taking place across national borders for the purpose of satisfying the needs of individuals and organizations. These economic transactions consist of trade, as in the case of exporting and importing, and direct investment of funds in overseas operations.

B. Globalization

1. Even though there is no doubt that we live in a world of globalization, the concept itself is still regarded as rather vague, as many different people use the notion of globalization in both positive and negative ways.

2. We define economic globalization as the growing interdependence of locations and economic actors across countries and regions. By deliberately using actors within our definition, we are able to include very small actors (such as individual entrepreneurs), or very large ones (such as a nation-state, which itself consists of individuals), as well as firms of all sizes. Each actor functions as a single organization for the generation of a specific set of outcomes or goals defined by their stakeholders.

3. Interdependence can be used to distinguish between internationalization and globalization. Interdependence refers to a mutual reliance between groups of actors, and the degree of this mutual reliance can vary considerably.

4. Mapping globalization can be a difficult task, as globalization itself includes a number of intertwining factors (social, economic, political factors) which are all linked by human behavior and action. As human behavior belongs within social science, it is extremely difficult to truly assess. Therefore, in terms of mapping globalization, we are only able to say is that there are numerous factors that are interrelated, but are we unable to be certain about the causality or the relative importance of each factor.

5. The main forces that drive globalization are associated with socio-political developments and technology and innovation, where political decisions and the ability

to generate new ideas through innovation can shape the success or failure of firms, and the competitiveness of countries.

C. Technology and innovation

1. Technology implies the application of scientific knowledge for practical aims which involves applying scientific concepts that help us understand our environment, and allows us to convert this knowledge to develop and fabricate artifacts.

2. Innovation revolves around the introduction of any novelty, however, it is important to distinguish between "invention" and "innovation." An invention is an idea, sketch, or model of any new or improved device, product, process, or system. In contrast, innovations only occur when the new product, device, or process is involved in a commercial transaction. Multiple inventions may be involved in achieving an innovation.

3. Over the last few years, communication technology has allowed all businesses to use computers and mobile phones and to rely on the World Wide Web to access and send information. New technological developments have also been applied to the production of goods and services.

4. International business is not limited to giant multinational enterprises. Many small and medium-sized businesses are also involved in this arena. Most of these companies have annual sales of less than $5 million, but thanks to innovation, technology and a well-trained workforce that is focused on their particular needs, they are able to compete effectively and to perform functions that multinationals cannot do as efficiently.

D. Socio-political developments

1. Economic interdependence is partly driven by political events, and most importantly by political stability. Stability of policies, and the creation and maintenance of the appropriate environment, plays a significant role in promoting the appropriate environment for firms to prosper.

2. However, businesses within different countries undergo varying levels of time and costs associated with starting a business, getting electricity, dealing with construction permits and enforcing contracts. For instance, the time required enforcing contacts in India in comparison with the US can take approximately four times the duration of time as well as twice the costs.

E. What are institutions?

1. Institutions are the "sets of common habits, routines, established practices, rules, or laws that regulate the interaction between individuals and groups." Institutions can be formal and informal. Formal institutions consist of rules that can be of the form of legal codes and laws, whereas informal institutions are not always laid out in the form of written instruction, but come out of usage and tradition and are often unwritten and tacit. Formal intuitions can exist within a firm such as responsibilities, job descriptions, codes of conduct, and accounting and financial regulations. In contrast, informal institutions can be asserted as a set of unwritten rules which may originate from culture/tradition within a particular firm. For instance, IBM no longer formally requires male staff to dress in dark conservative suits, but should you wear the wrong outfit, you

can be sure that someone will let you know that you have contravened an informal institution.

2. Importantly, not all formal intuitions are national or subnational. For instance, the General Agreement on Tariffs and Trade (GATT) was established in 1947 and was a major trade agreement that was established to negotiate trade concessions among member countries. Since then, established in 1995 and successor to the GATT, the World Trade Organization (WTO) is an international organization that deals with the rules of trade among member countries; one of its most important functions is to act as a dispute-settlement mechanism.

F. Multinational enterprises

1. A Multinational enterprises (MNE), also commonly referred to as a multinational corporation (MNC), can be defined as "*a firm that engages in value-added international business activities, that has affiliates in more than one country, and whose operations and activities in different locations are actively coordinated by one or more headquarters organizations*."

2. Even though FDI is one of the main modes by which MNEs engage in cross-border value-adding activities, today the MNE may also control and engage in value-adding activities through non-equity means, such as through strategic alliances, cooperative agreements, and outsourcing, sometimes without legal ownership of the various factories and plants. Therefore, the use of the term "MNE" as a synonym for FDI is increasingly inaccurate.

3. MNEs organize activities through global production networks (GPNs) and global value chains (GVCs) and manage ongoing and systematic vertical transactions through multiple headquarters, which may or may not be associated with a singular "parent company."

4. The MNE has traditionally also been regarded as having a distinct "home country" where its headquarters are located, and which acts as the command center, providing primary strategic direction for its affiliates in various "host countries." However, there are a growing number of firms where ownership and control are spread across several countries, as well as several cases where an MNE may locate its headquarters in a country other than its home country.

G. Foreign direct investment

1. Foreign direct investment (FDI) is equity funds invested in other nations. Industrialized countries have invested large amounts of money in other industrialized nations and smaller amounts in less-developed countries (LDCs), such as those in Eastern Europe, or in newly industrialized countries (NICs), such as Hong Kong (P.R. China), South Korea and Singapore. Most of the world's FDI is in the United States, the European Union and Japan. As nations have become more affluent, they have pursued FDI in geographic areas that have economic growth potential. The Japanese, for example, have been investing heavily in the United States.

2. Inward FDI flows to country A indicate money coming into country A during the reporting year, from foreign-owned MNEs to their subsidiaries in country A. In this case, country A is known as the host country. Outward FDI flows are monies going out,

from firms that are registered in country A (known as the home country) to their subsidiaries in other countries.

3. Over half of all world trade and approximately 80 percent of all foreign direct investment are made by the 500 largest firms in the world. The vast majority of these are multinational enterprises, i.e., firms that are headquartered in one country but have operations in one or more other countries.

H. International business in the modern era

1. Rise and fall of the Triad. The influence of the United States had diminished somewhat, as wealth was more equally distributed between the Triad countries, which accounted for around three-quarters of world manufacturing production. The domination of the Triad is evident by the fact that even by 1990, the share of inward FDI to developed countries was 80.9 percent. The Triad countries still play a significant role in absolute terms, with the US alone accounting for 24.4 percent of all outward FDI stock, which is equivalent to the UK, France, Germany, and the Netherlands put together.

2. Much of the growth in new MNEs from emerging markets reflects the growth of China. While the number of Chinese firms entering the Global Fortune 500 tripled between 2010 and 2014 years, the evidence suggests that few of them are truly internationalized.

3. Importance of SMEs. Most of these companies have annual sales of less than $5 million, but they are able to compete effectively and perform functions that multinationals cannot do as efficiently. They are especially important in the global era because the improved enforceability of contracts and declining transaction and monitoring costs resulting from globalization have made it easier for SMEs to engage in international business. Since being small, SMEs are much more flexible in a variety of ways, and they are invaluable partners to larger firms because they can change direction, focus, and structure with relative ease. Furthermore, according to the US Small Business Administration, SMEs were found to be more innovative than their larger counterparts.