

International Business

The New Realities

FIFTH EDITION

S. Tamer Cavusgil • Gary Knight • John Riesenberger



International Business

The New Realities

Fifth Edition

Global Edition

International Business: The New Realities, Global Edition

Table of Contents

	ra	nŧ	\sim	ver
г	W	ш	C	vei

Ttile Page

Copyright Page

Brief Contents

Contents

Preface

Acknowledgments

About the Authors

Part 1 Foundation Concepts

1 Introduction: What Is International Business?

China Globalizes Londons Black Cabs

What Are the Key Concepts in International Business?

The Nature of International Trade

The Nature of International Investment

Services as Well as Products

The International Financial Services Sector

How Does International Business Differ from Domestic Business?

The Four Risks in Internationalization

Who Participates in International Business?

Focal Firms in International Business

Small and Medium-sized Enterprises

Born Global Firms

Governments and Nongovernmental Organizations

Why Do Firms Internationalize?

Why Study International Business?

Facilitator of the Global Economy and Interconnectedness

Contributor to National Economic Well-being

A Competitive Advantage for the Firm

You Can Do It | Recent Grad in IB: Mary Lyles

A Competitive Advantage for You

An Opportunity to Support Ethics, Sustainability, and Corporate Citizenship



CKR Career Preparation Kit: Tangible Process Tools and Travel Abroad Preparation

Checklist

Closing Case: Internationalization at Vodafone

End-of-Chapter Review: Key Terms

Summary

Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes

2 Globalization of Markets and the Internationalization of the Firm

Skype: A born Global Business

Phases of Globalization

Market Globalization: Organizing Framework

Driving Forces of Globalization

Technological Advances and Globalization

Information Technology

Digitalization

Communications

Manufacturing

Transportation

Dimensions of Market Globalization

Firm-Level Consequences of Market Globalization: Internationalization of the Firms Value Chain

You Can Do It | Recent Grad in IB: Terrance Rogers

Societal Consequences of Globalization

Contagion: Rapid Spread of Monetary and Financial Crises

Loss of National Sovereignty

Offshoring

Reshoring

Effect on the Poor

Effect on Sustainability and the Natural Environment

Effect on National Culture

Globalization and Africa

Closing Case: A Debate on the Good and Harm of Globalization

End-of-Chapter Review: Key Terms

Summary

Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes



Part 2 The Environment of International Business

3 The Cultural Environment of International Business

Hallyu and the Rising Influence of the Korean Global Culture

Culture and Cross-Cultural Risk

What Culture Is Not

Socialization and Acculturation

Dimensions of Culture

Values and Attitudes

Manners and Customs

Perceptions of Time

Perceptions of Space

Symbolic Productions

Material Productions and Creative Expressions

Education

Social Structure

Role of Language and Religion in Culture

Verbal Language

Nonverbal Communication

Religion

Cultures Effect in International Business

Models and Explanations of Culture

Cultural Metaphors

High-and Low-Context Cultures

Hofstedes Research on National Culture

Deal Versus Relationship Orientation

Managerial Implications of Culture

Cultural Orientations

How to Acquire Cross-Cultural Competence

Closing Case: Hollywood Movies and Global Culture

End-of-Chapter Review: Key Terms

Summary

Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes

4 Ethics, Corporate Social Responsibility, Sustainability, and Governance in International Business

Improving the Lives of Bangladeshi Garments Factory Workers

Ethical Behavior and Its Importance in International Business

Components of Ethical Behavior

Value of Ethical Behavior

Unethical Behavior

Ethical Standards and Dilemmas Around the World

Relativism and Normativism



Ethical Challenges in International Business

Corruption

Bribery

Harmful Work Environment

Unethical Business Practices

Harmful Global Sourcing

Illicit Products and Marketing

Intellectual Property Infringement

Corporate Social Responsibility

Settings of Corporate Social Responsibility

Successes and Failures of CSR

Sustainability

Company Role in Sustainability

The Role of Corporate Governance

Embracing Ethical Behavior

Ethical Standard Approaches for Corporate Governance

A Global Consensus

Going Deep, Wide, and Local

Benefits of Corporate Governance

You Can Do It | Recent Grad in IB: Javier Estrada

A Framework Tool for Making Ethical Decisions

Closing Case: Scandal at Volkswagen

End-of-Chapter Review: Key Terms

Summary

Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes

5 Theories of International Trade and Investment

Apples Advantages in Global Competition

Why Do Nations Trade?

Classical Theories

How Can Nations Enhance Their Competitive Advantage?

The Competitive Advantage of Nations

Determinants of National Competitiveness

National Industrial Policy

National Industrial Policy in Practice

Why and How Do Firms Internationalize?

Internationalization Process of the Firm

Born Global Firms

How Can Internationalizing Firms Gain and Sustain Competitive Advantage?

FDI-Based Explanations

Dunnings Eclectic Paradigm

Non-FDI-Based Explanations

Closing Case: Unilevers Comparative and Competitive Advantages



End-of-Chapter Review: Key Terms

Summary

Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes

6 Political and Legal Systems in National Environments

Galileo: Regional Disintegration and Its Consequences

How Prevalent Is Country Risk?

Political and Legal Environments in International Business

Political Systems

Authoritarianism

Socialism

Democracy

National Governance and Economic Prosperity

The Relationship Between Political Systems and Economic Systems

Legal Systems

Common Law

Civil Law

Religious Law

Mixed Systems

Participants in Political and Legal Systems

Government

International Organizations

Regional Trade Organizations

Special Interest Groups

Competing Firms

Types of Country Risk Produced by Political Systems

Government Takeover of Corporate Assets

Embargoes and Sanctions

Boycotts Against Firms or Nations

Terrorism

War, Insurrection, and Violence

Types of Country Risk Produced by Legal Systems

Country Risk Arising from the Host-country Legal Environment

Country Risk Arising from the Home-country Legal Environment

You Can Do It | Recent Grad in IB: Christopher Johnson

Managing Country Risk

Proactive Environmental Scanning

Strict Adherence to Ethical Standards

Alliances with Qualified Local Partners

Protection Through Legal Contracts

Closing Case: The Global Biopharmaceutical Industry: Political, Legal, and Ethical Dilemmas

End-of-Chapter Review: Key Terms

Summary



Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes

7 Government Intervention and Regional Economic Integration

Tripartism: Singapores Key Competitive Advantage

The Nature of Government Intervention

Defensive Rationale

Offensive Rationale

Instruments of Government Intervention

Tariffs

Nontariff Trade Barriers

Investment Barriers

Subsidies and Other Government Support Programs

Evolution and Consequences of Government Intervention

How Firms Can Respond to Government Intervention

Strategies for Managers

You Can Do It | Recent Grad in IB: Ashley Lumb

Regional Integration and Economic Blocs

Levels of Regional Integration

Leading Economic Blocs

The European Union

North American Free Trade Agreement (NAFTA)

Advantages and Implications of Regional Integration

Expand Market Size

Achieve Scale Economies and Enhanced Productivity

Attract Direct Investment from Outside the Bloc

Acquire Stronger Defensive and Political Posture

Closing Case: South Korean Industry Policy and Economic Modernization

End-of-Chapter Review: Key Terms

Summary

Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes

8 Understanding Emerging Markets

New Global Challengers: Top Firms from Emerging Markets

Advanced Economies, Developing Economies, and Emerging Markets

Advanced Economies

Developing Economies

Emerging Market Economies

What Makes Emerging Markets Attractive for International Business?

Emerging Markets as Target Markets

Emerging Markets as Manufacturing Bases



Emerging Markets as Sourcing Destinations

Assessing the True Potential of Emerging Markets

Per-Capita Income as an Indicator of Market Potential

Middle Class as an Indicator of Market Potential

Risks and Challenges of Emerging Markets

Political Instability

Weak Intellectual Property Protection

Bureaucracy, Red Tape, and Lack of Transparency

Poor Physical Infrastructure

Partner Availability and Qualifications

Likely Resistance from Family Conglomerates

Success Strategies for Emerging Markets

Customize Offerings to Unique Emerging Market Needs

Partner with Family Conglomerates

Target Governments in Emerging Markets

You Can Do It | Recent Grads in IB: Andrew and Jamie Waskey

Skillfully Challenge Emerging Market Competitors

Corporate Social Responsibility, Sustainability, and the Crisis of Global Poverty

Foster Economic Development

Microfinance to Facilitate Entrepreneurship

The Special Case of Africa

Closing Case: Astra International: Building Successful International Business Around Shifting National Government Policy

End-of-Chapter Review: Key Terms

Summary

Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes

The European Union and the Euro

9 The International Monetary and Financial Environment

The European Union and the Euro

Exchange Rates and Currencies in International Business

Convertible and Nonconvertible Currencies

Foreign Exchange Markets

Currency Risk

How Exchange Rates Are Determined

Economic Growth

Inflation and Interest Rates

Market Psychology

Government Action

Emergence of the Modern Exchange Rate System

The Bretton Woods Agreement



The Modern Exchange Rate System

The Monetary and Financial Systems

International Monetary System

Global Financial System

Key Players in the Monetary and Financial Systems

The Firm

National Stock Exchanges and Bond Markets

Commercial Banks

You Can Do It | Recent Grad in IB: Maria Petit

Central Banks

The Bank for International Settlements

International Monetary Fund

The World Bank

The Global Debt Crisis

Closing Case: Asian IFCs: Singapore and Hong Kong

End-of-Chapter Review: Key Terms

Summary

Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes

10 Financial Management and Accounting in the Global Firm

How a Small Firm Navigates Currency Risk

Key Tasks in International Financial Management

Choosing a Capital Structure

Raising Funds for the Firm

Financial Centers

Sources of Funds for International Operations

Managing Working Capital and Cash Flow

Methods for Transferring Funds Within the Mne

Multilateral Netting

Performing Capital Budgeting

Net Present Value Analysis of Capital Investment Projects

Managing Currency Risk

Three Types of Currency Exposure

Foreign-Exchange Trading

Types of Currency Traders

Exchange-Rate Forecasting

Managing Exposure to Currency Risk Through Hedging

Hedging Instruments

Best Practice in Minimizing Currency Exposure

Managing the Diversity of International Accounting and Tax Practices



Transparency in Financial Reporting

Trends Toward Harmonization

Consolidating the Financial Statements of Subsidiaries

International Taxation

Managing International Finance to Minimize Tax Burden

Closing Case: International Financial Management at Tektronix

End-of-Chapter Review: Key Terms

Summary

Test Your Comprehension
Apply Your Understanding
globalEDGE Internet Exercises

Endnotes

Ikea: Global Retailing Success Story

Part 3 Strategy and Opportunity Assessment

11 Strategy and Organization in the International Firm

IKEA: Global Retailing Success Story

Strategy in International Business

Efficiency

Flexibility

Learning

Building the Global Firm

Visionary Leadership

Organizational Culture

Organizational Processes

The Distinction Between Multidomestic and Global Industries

The Integration-responsiveness Framework

Strategies Based on the Integration-responsiveness Framework

Organizational Structure in International Business

Centralized or Decentralized Structure?

Organizational Structures for International Operations

Foreign Market Entry Strategies

Closing Case: Global Strategy at Lenovo

End-of-Chapter Review: Key Terms

Summary

Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes

12 Global Market Opportunity Assessment



Estimating Demand in Emerging Markets

Analyzing Organizational Readiness to Internationalize

Assessing the Suitability of Products and Services for Foreign Markets

Screening Countries to Identify Target Markets

Screening Countries for Exporting

Country Screening for Foreign Direct Investment

Country Screening for Manufacturing Competitiveness and Sourcing

Assessing Industry Market Potential

Data Sources for Estimating Industry Market Potential

You Can Do It | Recent Grad in IB: Natasha Brown

Choosing Foreign Business Partners

Criteria for Choosing a Partner

Searching for Prospective Partners

Estimating Company Sales Potential

Practical Approaches to Estimating Company Sales Potential

In Conclusion

Closing Case: Shifting Ice: Big Changes at Icebreaker

End-of-Chapter Review: Key Terms

Summary

Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes

Part 4 Entering and Working in International Markets

13 Exporting and Global Sourcing

Maersk and the Global Container Business

Exporting as a Foreign Market Entry Strategy

Service Sector Exports

A Systematic Approach to Exporting

Importing

Managing Export-import Transactions

Documentation

Shipping and Incoterms

Payment Methods in Exporting and Importing

Financing

Identifying and Working with Foreign Intermediaries

Finding Foreign Intermediaries

Working with Foreign Intermediaries

When Intermediary Relations Go Bad



Outsourcing, Global Sourcing, and Offshoring

Decision 1: Outsource or Not?

Decision 2: Where in the World Should Value-adding Activities Be Located?

Global Sourcing

Benefits, Risks, and Responsibilities of Global Sourcing

Benefits of Global Sourcing

Risks of Global Sourcing

Reshoring and Nearshoring

Corporate Social Responsibility

Global Sourcing Strategies and Supply-chain Management

Global Supply-Chain Management

Closing Case: Inditex and Zara: A Tale of Comparative Advantages

End-of-Chapter Review: Key Terms

Summary

Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes

14 Foreign Direct Investment and Collaborative Ventures

Huawei Invests in Africa

International Investment and Collaboration

Volume of Foreign Direct Investment and Collaborative Ventures

Most Active Firms in FDI

Service Firms and FDI

Leading Destinations for FDI

Factors to Consider in Choosing FDI Locations

Characteristics of Foreign Direct Investment

Ethics, Social Responsibility, Sustainability, and FDI

Motives for FDI and Collaborative Ventures

Market-Seeking Motives

Resource- or Asset-Seeking Motives

Efficiency-Seeking Motives

Types of Foreign Direct Investment

Greenfield Investment Versus Mergers and Acquisitions

The Nature of Ownership in FDI

Vertical Versus Horizontal Integration

International Collaborative Ventures

You Can Do It | Recent Grad in IB: Jennifer Knippen

Equity Joint Ventures



Project-based, Nonequity Ventures

Differences Between Equity and Project-based, Nonequity Ventures

Consortium

Cross-licensing Agreements

Potential Risks in Collaboration

Managing Collaborative Ventures

The Experience of Retailers in Foreign Markets

How Retailers Succeed in International Markets

Closing Case: Chinas Going Out Strategy

End-of-Chapter Review: Key Terms

Summary

Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes

15 Licensing, Franchising, and Other Contractual Strategies

How LEGO Built Global Value in the Toy Industry, Block by Block

Contractual Entry Strategies

Unique Aspects of Contractual Relationships

Licensing as an Entry Strategy

Trademark and Copyright Licensing

Know-How Licensing

The Worlds Top Licensing Firms

Advantages and Disadvantages of Licensing

Advantages of Licensing

Disadvantages of Licensing

Franchising as an Entry Strategy

Who Are the Top Global Franchisors?

Advantages and Disadvantages of Franchising

The Franchisor Perspective

The Franchisee Perspective

Managerial Guidelines for Licensing and Franchising

Other Contractual Entry Strategies

Turnkey Contracting

Build-Operate-Transfer Arrangements (BOT)

Management Contracts

Leasing

The Special Case of Internationalization by Professional Service Firms

You Can Do It | Recent Grad in IB: Juanita Velez

Infringement of Intellectual Property: a Global Problem

Guidelines for Protecting Intellectual Property

Closing Case: Subway and the Challenges of Franchising in China

End-of-Chapter Review: Key Terms



Summary

Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes

Part 5 Functional Area Excellence

16 Marketing in the Global Firm

Michael Kors: the Global Affordable Luxury Market

Global Market Segmentation

Standardization and Adaptation of International Marketing

Standardization

Adaptation

Standardization and Adaptation: a Balancing Act

You Can Do It | Recent Grad in IB: John Dykhouse

Global Branding and Product Development

Global Branding

Global Product Development

International Pricing

Factors That Affect International Pricing

Framework for Setting International Prices

Managing International Price Escalation

Managing Pricing Under Varying Currency Conditions

Transfer Pricing

Gray Market Activity (Parallel Imports)

International Marketing Communications

International Advertising

International Promotional Activities

International Distribution

Global Account Management

Closing Case: H&M: International Marketing Success Story

End-of-Chapter Review: Key Terms

Summary

Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes

17 Human Resource Management in the Global Firm

Etisalat Egypt: Attracting and Maintaining the Best Employees

The Strategic Role of Human Resources in International Business



Differences Between Domestic and International HRM

Key Tasks in International Human Resource Management

International Staffing Policy

Recruiting, Selecting, and Developing Talent

Cultivating Global Mind-sets

Cultural Intelligence

Expatriate Assignment Failure and Culture Shock

Preparation and Training of International Employees

Preparing Employees for Repatriation

Charting Global Careers for Employees

Performance Appraisal and Compensation of International Employees

Compensation

International Labor Relations

Distinctive Features of Labor Around the World

Cost, Quality, and Productivity of Labor

Workforce Reduction and Employee Termination

International Labor Trends

Firm Strategy in International Labor Relations

Diversity in the International Workforce

Women in International Business

Success Strategies for Women Managers in International Business

Closing Case: Sonys Human Resource Strategies

End-of-Chapter Review: Key Terms

Summary

Test Your Comprehension

Apply Your Understanding

globalEDGE Internet Exercises

Endnotes

Glossary

Author Index

Company Index

Subject Index

