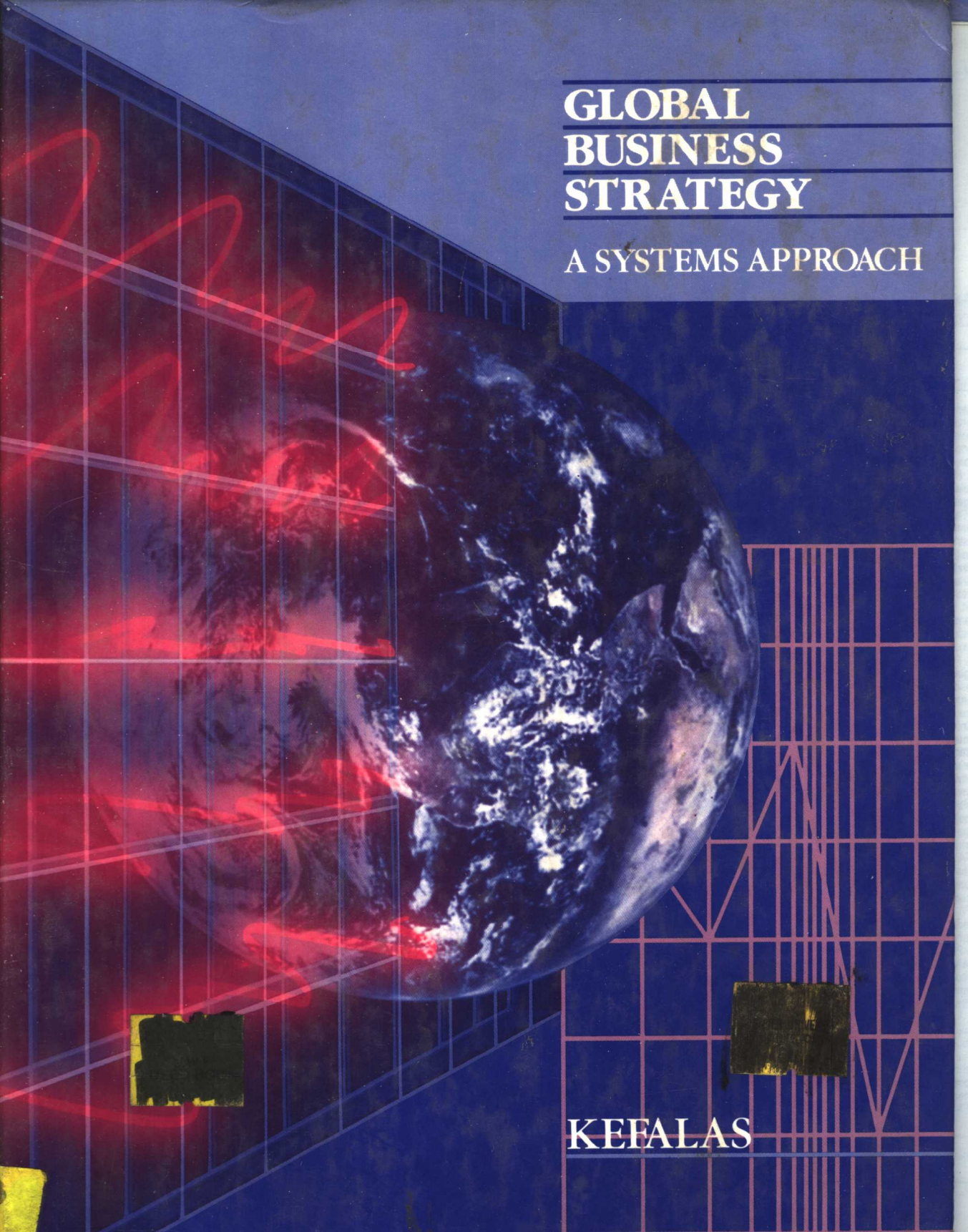


GLOBAL BUSINESS STRATEGY

A SYSTEMS APPROACH



KEEALAS

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To
Georgios, my father, who gave me life
and
Georgios, my son, who gave it purpose



PREFACE

Future historians of business will undoubtedly describe the 1990s as the dawn of globalization. Gradually but steadily, goods, services, money, and people are coming to be exchanged in a market that has virtually no national borders. This market is not simply an extension of the domestic markets that grew up after the end of World War II. Rather, the global market is a new phenomenon brought about by a convergence of the social, political, and economic systems of the peoples of the earth.

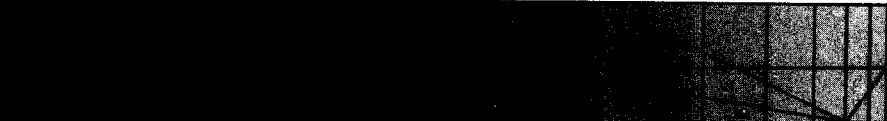
At the center of this globalization process is the interplay between the multinational corporation (MNC) and the nation-state, or country. The nation-state, responding to the political and economic cooperation among the great powers, has found that it must adopt a more cooperative attitude toward the MNC. Similarly, the MNC, faced with some new managerial challenges, has discovered that it needs the support of the nation-state. These challenges stem from changes in technology (primarily information technology), market forces, and people's attitudes toward work. Even among MNCs, conventional "go-it-alone" strategies, prevalent in the 1970s and early 1980s, are giving way to "cooperate-to-compete" strategies. Indeed, strategic alliances among some of the largest MNCs seem to be the norm rather than the exception.

Institutions of higher education, cognizant of this shift toward globalization, are developing curricula that aim at preventing American students, the business leaders of the future, from falling prey to "the backyard view." When one sees no light in any of the other windows in the neighborhood, it is all too easy to assume that everyone in the world is asleep—to forget that there is more to the world than one's own backyard. The business leader of the future must understand that from now on, business opportunities and challenges will be global ones; no single country will ever again have a monopoly on business or technological expertise.

THE APPROACH OF THIS BOOK

The greatest dilemma facing the author of a textbook on international business strategy is estimating readers' knowledge of the domain. Should the author assume that the student already comprehends such subjects as international economics, international trade, and international finance? Or should the book deal extensively with these subjects before tackling management issues?

After over fifteen years of teaching, I have come to recognize that the appropriate compromise is to provide a quick refresher on international economics, trade, and finance. For this reason, *Global Business Strategy: A Systems Approach* builds a good theoretical base before addressing the basic functions, or tasks, of global management. The philosophy underlying this work



is that international managers are practitioners of economics and, in particular, its subdiscipline of international economics. Just as a good engineer must learn the science of physics before practicing engineering, and a physician the science of biology before practicing medicine, international managers must learn international economics before they can begin practicing global management.

STRUCTURE OF THE TEXT

The book is organized into three parts.


Part 1, The Subject, explores the field of international business (Chapter 1) and its main actors, the MNC (Chapter 2) and the nation-state (Chapter 3).

Part 2, Theoretical Base, presents in compact form all the background knowledge that students need to refresh their memories.

Part 3, The Management of Global Operations, is the main focus of the book. The material in this part describes the phases in the process of internationalization. Generally, a firm goes global by following a process of “creeping incrementalism.” The first step in this process is to adopt the strategy involving the least commitment—exporting. Subsequently a firm moves into contractual arrangements such as licensing, franchising, or management contracts. If the firm’s efforts prove successful, management commits more resources to the more risky entry mode of investment. Part 3 of the book contains seven chapters that correspond to the main tasks of management. The decision to participate, or enter the global market, is the subject of Chapter 7, Participation Strategy. Chapter 8 describes how the organization structure of an MNC is built. The next five chapters deal with the main functions of management. Financial management strategy is the subject of Chapter 9, production/sourcing strategy is dealt with in Chapter 10, and marketing strategy is explained in Chapter 11. Chapter 12, Human Resource Development, tackles the difficult subject of attracting, developing, and retaining good managerial personnel. Chapter 13, Communication and Control, explores the design of appropriate systems for monitoring and controlling global operations. Finally, Chapter 14, Consortia and Strategic Alliances, reviews the latest trends in the interplay between MNCs and between MNCs and nation-states, and speculates on some of the most likely developments in the global race.

FEATURES OF THE BOOK

Great care has been taken to make the book as effective a teaching aid as possible. The mixture of visual stimuli with text is one of the distinguishing characteristics of the book. At the beginning of each chapter is a flow diagram of the main concepts and subconcepts covered in the chapter. This diagram



is accompanied by a list of learning objectives and a short overview, which serves as a prelude to the main part of each chapter. The body of each chapter contains a combination of text and graphical material. A recapitulation at the end of each chapter provides a concise summary of the main points. Finally, questions and exercises at the end of each chapter give students an opportunity to test their understanding of the material covered in the chapter.

The concept that ties the text together is the systems approach. This approach looks at an MNC as an open system that is in continual interaction with its external environment. The emphasis on the MNC's external environment is manifested in features called Emerging Issues. These sections describe factors in the external environment that are likely to have a marked impact on the strategies and structures of MNCs. The Emerging Issues allow the instructor to expose students to societal issues that are not usually textbook material. Six such issues have been included, one for each of the first six chapters.

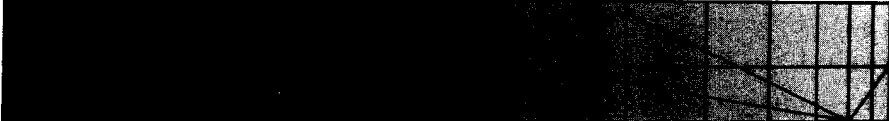
The conciseness of the book is perhaps its greatest advantage. Most professors have pet topics or techniques that they like to emphasize in their courses—simulation exercises, the Pacific Basin and Japan, the European Common Market, or industry analysis, for example. This kind of special emphasis takes time. A lengthy text presents a problem for the instructor, who has to skip some material to accommodate his or her own interests.

SUPPLEMENTARY MATERIAL

The Instructor's Manual contains concise summaries of each chapter; chapter outlines; suggested multiple choice, true/false, and essay questions; suggested paper topics; sources of additional instructional materials such as films, speakers, and data bases; and a set of transparency masters of charts used in the book.

ACKNOWLEDGMENTS

The writing of this book took me across the Atlantic a dozen times during the last five years. In the process of learning about the workings of MNCs, I have had invaluable assistance and guidance from many people. It is virtually impossible to mention all of them here. However, I cannot fail to acknowledge the contributions of the following persons: Yohannan T. Abraham, Southwest Missouri State; Todd Barber, The Alexander Group, for his help with the software provided as an ancillary to the text; William Boulton, Roberto Friedmann, Margaret E. Holt, and William Megginson, University of Georgia; Philip L. Cochran, Penn State University; David Allen Cole, AMRO Bank of Holland, Chicago; Zaki F. El-Adawy, Pace University; Les Flynn, Strategic Management Alliance, Inc.; Juan Carlos Folino, Integra, Inc.; James D. Goodnow, Bradley University;



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Athens, Georgia
March 1989

A. G. Kefalas



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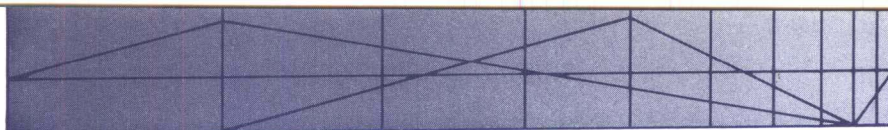
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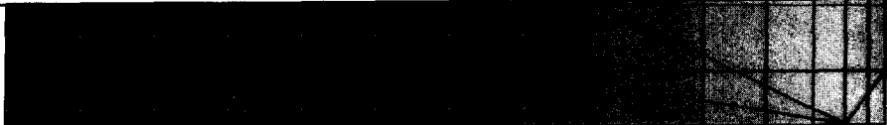
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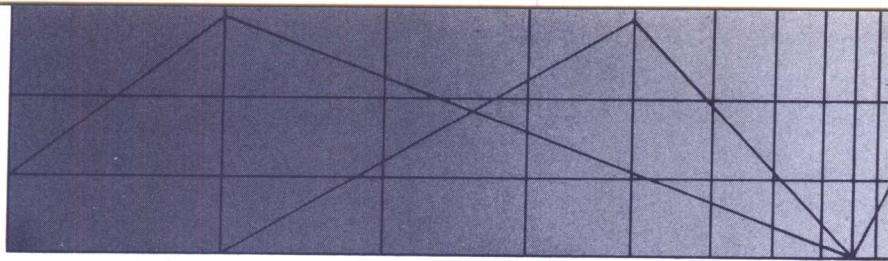
The reality of a global marketplace has pushed us along the path of developing a rational world economy. Progress owes almost nothing to political imagination. . . .

The development of truly multinational organizations has produced a group of managers who really believe in one world. . . . They are against the partitioning of the world on the pragmatic ground that the planet has become too small, that our fates have become too interwoven for us to engage in the old nationalistic games which have so long diluted the talent, misused the resources, and dissipated the energy of mankind. . . .

Economic chauvinism is obsolete in a world where the prosperity of all nations depends more and more on cooperation and free trade.

Walter B. Wriston

"The World According to Walter," *Harvard Business Review*, January–February 1986, 66, 67, 68.



CHAPTER 1

THE FIELD AND THE FRAMEWORK

The beginning of wisdom is calling things by their right name.

Confucius

OVERVIEW

This chapter addresses two main questions: (1) What activities are involved in the field of international business? (2) How are these activities organized and executed? This combination of “know what” and “know how” is essential for understanding the field of international business.

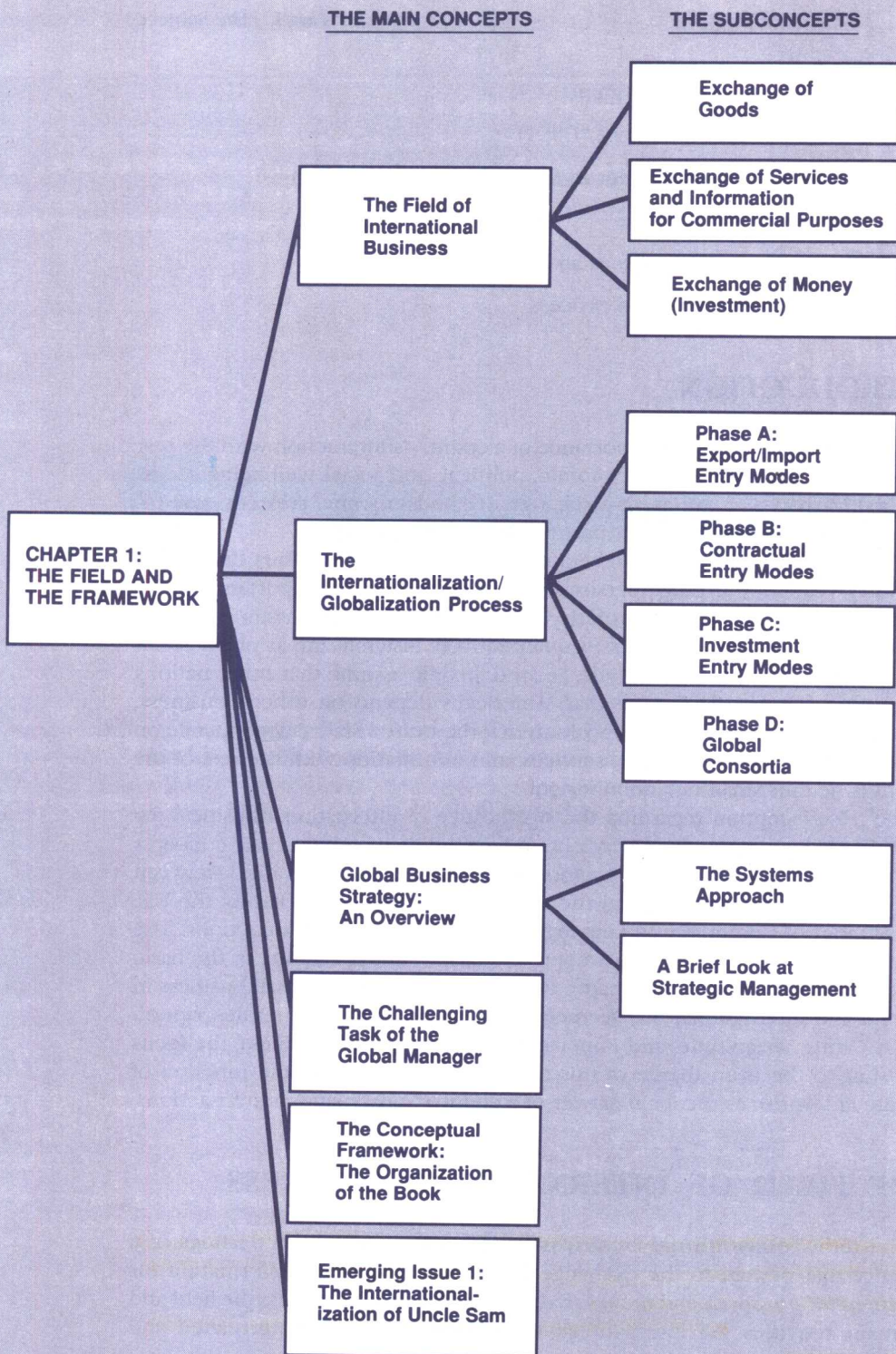
Answering the first question involves study of the variety of activities typically performed by business organizations engaged in international business and of the nature of such organizations. Answering the second question requires study of the process used by an organization considering involvement in international business and how this involvement actually materializes (that is, entry strategies).

Finally, because organizations are made up of people who carry out the various decision-making activities involved in international business, the chapter delineates the basic tasks in setting global business strategy and the subsequent decisions and plans that must be made and carried out in implementing international operations.

LEARNING OBJECTIVES

After studying the material in this chapter, the student should be familiar with the following concepts:

- (1) International business
- (2) Exchange of goods
- (3) Exchange of services and information
- (4) Exchange of money



- (5) Portfolio (stock) investment
- (6) Direct foreign investment (USDFI)
- (7) Direct foreign investment in the United States (DFIUS)
- (8) The business enterprise
- (9) The business enterprise as an open system
- (10) The internationalization process

INTRODUCTION

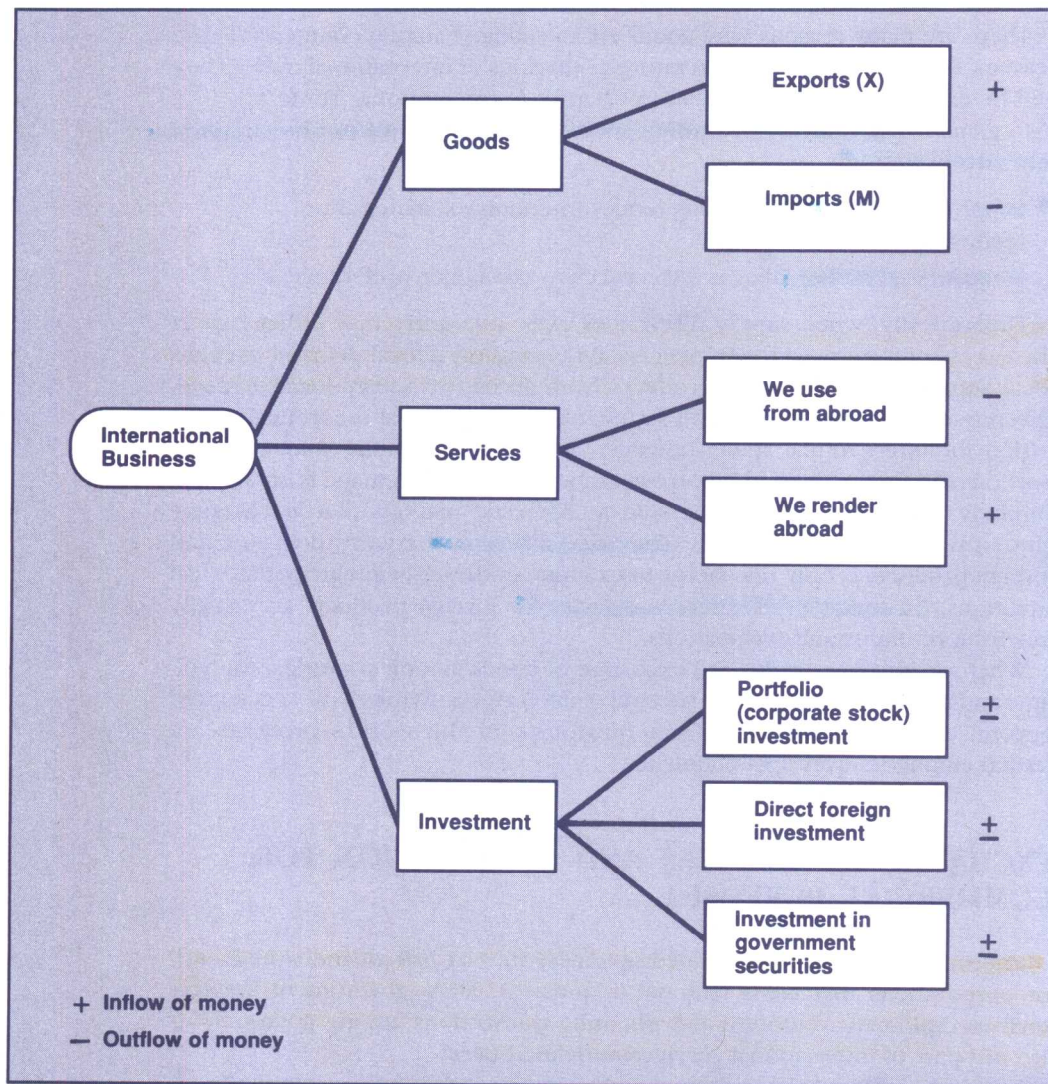
Few people question the importance of a country's interaction with the rest of the world in fostering its economic, political, and social well-being. International business—a country's exchange of goods, money, services, and information—is a very important part of this interaction.

Because of the role the United States has played in world affairs during the last forty years, the average person's understanding of the importance of international business to U.S. prosperity is distorted. First, many assume that the amount of international business is quantitatively insignificant, as only a small percentage of the GNP is involved. Second, people assume that other nations depend on U.S. business more than Americans depend on others' business. This book subscribes to the proposition that the United States' dependence on the exchange of goods, money, services, and information with the rest of the world is neither small nor unimportant.

The misconception regarding the significance of international business for the United States stems from a lack of understanding of certain basic concepts and the supporting statistics. The ignorance of statistics is forgivable—few can claim that they fully understand the accounting procedures used by the U.S. Department of Commerce in keeping track of international transactions. The purpose of this chapter is to overcome the lack of understanding of the basic concepts by familiarizing the reader with the field of international business in general and international management in particular. After a brief description of the nature, magnitude, and importance of international business, the focus will shift to the main theme of this book, which is the role and function of private enterprise as the main carrier of a country's international transactions.

THE FIELD OF INTERNATIONAL BUSINESS

The term **international business** denotes all international dealings of a country that pertain to the exchange of goods, services and information for *commercial purposes*, and money. Exhibit 1-1 graphically depicts the field and its main activities. All international business activities are interrelated and interdependent.

Exhibit 1-1 International Business Activities

If industry produces more than people can consume, then the country will *export* (X) the difference:

$$SS > DD \longrightarrow X$$

If people consume more than industry can produce, then the country will *import* (M) the difference:

$$DD > SS \longrightarrow M$$

DD = Aggregate Demand

SS = Aggregate Supply