INTERNATIONAL EDITION

3

GLOBAL BUSINESS TODAY

Charles W. L. Hill

McGRAW-HILL

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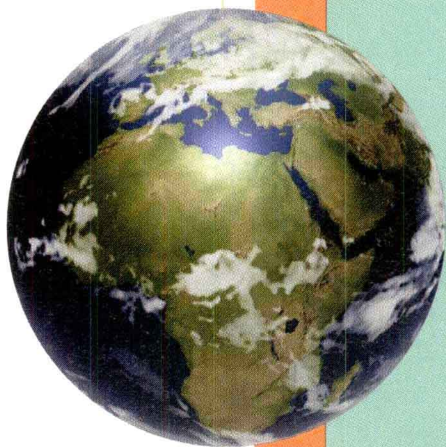

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Global Business Today is intended for the first international business course at either the undergraduate or the MBA level. My goal in writing this book has been to set a new standard for international business textbooks: I have attempted to write a book that (1) is comprehensive and up-to-date, (2) goes beyond an uncritical presentation and shallow explanation of the body of knowledge, (3) maintains a tight, integrated flow between chapters, (4) focuses managerial implications, and (5) makes important theories accessible and interesting to students.

COMPREHENSIVE AND UP-TO-DATE

To be comprehensive, an international business textbook must:

- Explain how and why the world's countries differ.
- Present a thorough review of the economics and politics of international trade and investment.
- Explain the functions and form of the global monetary system.
- Examine the strategies and structures of international businesses.
- Assess the special roles of an international business's various functions.

This textbook does all these things. Too many other textbooks pay scant attention to the strategies and structures of international businesses and to the implications of international business for firms' various functions. This omission is a serious deficiency, because the students in these international business courses will soon be international managers, and they will be expected to understand the implications of international business for their organization's strategy, structure, and functions. This book pays close attention to these issues.

Comprehensiveness and relevance also require coverage of the major theories. Although many international business textbooks do a reasonable job of reviewing long-established theories (e.g., the theory of comparative advantage and Vernon's product life-cycle theory) they tend to ignore such important newer work as:

- The new trade theory and strategic trade policy.
- The work of Nobel Prize-winning economist Amartya Sen on economic development.
- Samuel Huntington's influential thesis on the "clash of civilizations."
- The new growth theory of economic development championed by Paul Romer and Gene Grossman.
- Recent empirical work by Jeffrey Sachs and others on the relationship between international trade and economic growth.
- Michael Porter's theory of the competitive advantage of nations.
- Robert Reich's work on national competitive advantage.
- The work of Douglass North and others on national institutional structures and the protection of property rights.
- The market imperfections approach to foreign direct investment that has grown out of Ronald Coase and Oliver Williamson's work on transaction cost economics.
- Bartlett and Ghoshal's research on the transnational corporation.
- The writings of C. K. Prahalad and Gary Hamel on core competencies, global competition, and global strategic alliances.

The failure of many books to discuss such work is a serious deficiency considering how influential these theories have become, not just in academic circles, but also in the world at large. A major proponent of strategic trade policy, Laura Tyson served for a time as chairperson of President Clinton's Council of Economic Advisors. Robert Reich served as secretary of Labor in the Clinton administration. Ronald Coase won the 1992 Nobel Prize in economics, giving the market imperfections approach new respectability. Two years later, Douglass North won the Nobel Prize in economics for his work showing how a nation's economic history influences its contemporary institutions and property rights regime. More recently still, Amartya Sen won the Nobel Prize for his work on economic development. The work of Bartlett, Ghoshal, Hamel, and Prahalad is having an important impact on business practices.

I have incorporated all relevant state-of-the-art work at the appropriate points in this book. For example, in Chapter 2, "Country Differences in Political Economy," reference is made to the new growth theory, to the work of North and others on national institutional structures and property rights, and to the work of Sen. In Chapter 4, "International Trade Theory," in addition to such standard theories as the theory of comparative advantage and the Heckscher–Ohlin theory, there is detailed discussion of the new trade theory and Porter's theory of national competitive advantage. The empirical work on the relationship between trade and economic growth is also examined in this chapter. In Chapter 5, "The Political Economy of International Trade," the pros and cons of strategic trade policy are discussed. In Chapter 6, "Foreign Direct Investment," the market imperfections approach is reviewed. Chapter 10, which deals with the strategy of international business, draws extensively on the work of Bartlett, Ghoshal, Hamel, and Prahalad.

In addition to including leading-edge theory, in light of the fast-changing nature of the international business environment, every effort is being made to ensure that the book is as up-to-date as possible when it goes to press. A significant amount has happened in the world since the first edition of this book was published. The Uruguay Round of GATT negotiations was successfully concluded and the World Trade Organization was established. The European Union moved forward with its post-1992 agenda to achieve a closer economic and monetary union, including the establishment of a common currency in January 1999. The North American Free Trade Agreement passed into law, and Chile indicated its desire to become the next member of the free trade area. The Asia-Pacific Economic Cooperation forum (APEC) emerged as the kernel of a possible future Asia Pacific free trade area. The former Communist states of Eastern Europe and Asia continued on the road to economic and political reform. As they did, the euphoric mood that followed the collapse of communism in 1989 was slowly replaced with a growing sense of realism about the hard path ahead for many of these countries. The global money market continued its meteoric growth. By 2001, more than $1.5 trillion per day was flowing across national borders. The size of such flows fueled concern about the ability of short-term speculative shifts in global capital markets to destabilize the world economy. These fears were fanned by the well-publicized financial problems of a number of organizations that traded derivatives through the global money market, such as Barings Bank. The World Wide Web emerged from nowhere to become the backbone of an emerging global network for electronic commerce. The world continued to become more global. Several Asian Pacific economies, including most notably China, continued to grow at a rapid rate. New multinationals continued to emerge from developing nations in addition to the world's established industrial powers. And increasingly, the globalization of the world economy affected a wide range of firms of all sizes, from the very large to the very small.

Reflecting this rapid pace change, in this edition of the book I have tried to ensure that all material and statistics are as up-to-date as possible as of 2002. However, being absolutely up-to-date is impossible since change is always with us. What is current today may be outdated tomorrow. Accordingly, I have established a home page for this book on the World Wide Web at www.mhhe.com/hill. From this home page the reader can access regular updates of chapter material and reports on topical developments that are relevant to students of international business. I hope readers find this a useful addition to the support material for this book.

BEYOND UNCRITICAL PRESENTATION AND SHALLOW EXPLANATION

Many issues in international business are complex and thus necessitate considerations of pros and cons. To demonstrate this to students, I have adopted a critical approach that presents the arguments for and against economic theories, government policies, business strategies, organizational structures, and so on.

Related to this, I have attempted to explain the complexities of the many theories and phenomena unique to international business so the student might fully comprehend the statements of a theory or the reasons a phenomenon is the way it is. These theories and phenomena are typically explained in more depth in this book than they are in competing textbooks, the rationale being that a shallow explanation is little better than no explanation. In international business, a little knowledge is indeed a dangerous thing.

INTEGRATED PROGRESSION OF TOPICS

Many textbooks lack a tight, integrated flow of topics from chapter to chapter. In this book, students are told in Chapter 1 how the book's topics are related to each other. Integration has been achieved by organizing the material so that each chapter builds on the material of the previous ones in a logical fashion.

Part One

Chapter 1 provides an overview of the key issues to be addressed and explains the plan of the book.

Part Two

Chapters 2 and 3 focus on national differences in political economy and culture. Most international business textbooks place this material at a later point, but I believe it is vital to discuss national differences first. After all, many of the central issues in international trade and investment, the global monetary system, international business strategy and structure, and international business operations arise out of national differences in political economy and culture. To fully understand these issues, students must first appreciate the differences in countries and cultures.

Part Three

Chapters 4 through 7 investigate the political economy of international trade and investment. The purpose of this part is to describe and explain the trade and investment environment in which international business occurs.

Part Four

Chapters 8 and 9 describe and explain the global monetary system, laying out in detail the monetary framework in which international business transactions are conducted.

Part Five

In Chapters 10 through 15, attention shifts from the environment to the firm. Here the book examines the strategies and structures that firms adopt to compete effectively in the international business environment. These chapters explain how firms can perform their key functions—manufacturing, marketing, R&D, and human resource management—to compete and succeed in the international business environment.

Throughout the book, the relationship of new material to topics discussed in earlier chapters is pointed out to the students to reinforce their understanding of how the material comprises an integrated whole.

FOCUS ON MANAGERIAL IMPLICATIONS

Many international business textbooks fail to discuss the implications of the various topics for the actual practice of international business. This does not serve the needs of business school students who will soon be practicing managers. Accordingly, the usefulness of this book's material in the practice of international business is discussed explicitly. In particular, at the end of each chapter in Parts Two, Three, and Four—where the focus is on the environment of international business, as opposed to particular firms—there is a section titled "Implications for Business." In this section, the managerial implications of the material discussed in the chapter are clearly explained. For example, Chapter 4, "International Trade Theory," ends with a detailed discussion of the various trade theories' implications for international business management.

In addition, each chapter begins with an opening case that illustrates the relevance of chapter material for the practice of international business. Chapter 2, "Country Differences in Political Economy," for example, opens with a case that describes how changes in the political and economic institutions of India are making it a more attractive location for international businesses to operate.

I have also added a closing case to each chapter. These cases are also designed to illustrate the relevance of chapter material for the practice of international business. The closing case to Chapter 2, for example, looks at Microsoft's battle against software piracy in China. This case helps to illustrate the important role that national differences in the protection of intellectual property rights can play in international business.

Another tool that I have used to focus on managerial implications are Management Focus boxes. There is at least one Management Focus in each chapter. Like the opening case, the purpose of these boxes is to illustrate the relevance of chapter material for the practice of international business. The Management Focus in Chapter 2, for example, looks at how the South African government has adopted laws that allow the sale of cheap generic versions of patented medicines—including a powerful new drug for treating AIDS—without permission from the patent owner, which in this case are large multinational pharmaceutical firms.

ACCESSIBLE AND INTERESTING

The international business arena is fascinating and exciting, and I have tried to communicate my enthusiasm for it to the student. Learning is easier and better if the subject matter is communicated in an interesting, informative, and accessible manner. One technique I have used to achieve this is weaving interesting anecdotes into the narrative of the text—stories that illustrate theory. The opening cases and focus boxes are also used to make the theory being discussed in the text both accessible and interesting.

Each chapter has two kinds of focus boxes—a Management Focus box (described above) and a Country Focus box. Country Focus boxes provide background on the political, economic, social, or cultural aspects of countries grappling with an international business issue. In Chapter 2, for example, one Country Focus box discusses how an endemic level of corruption among public officials in Nigeria has had a detrimental effect on economic development in that nation.

Just how accessible and interesting this book actually is will be revealed by time and student feedback. I am confident, however, that this book is far more accessible to students than its competitors. For those of you who view such a bold claim with skepticism, I urge you to read the sections in Chapter 1 on the globalization of the world economy, the changing nature of international business, and how international business is different.

WHAT'S NEW IN THIS EDITION

The success of the first two editions of *Global Business Today* was based in part upon the incorporation of leading-edge research into the text, the use of the up-to-date examples and statistics to illustrate global trends and enterprise strategy, and the discussion of current events within the context of the appropriate theory. Building on these strengths, my goals for this revision have been threefold:

1. Incorporate new insights from recent scholarly research wherever appropriate.
2. Make sure the content of the text covers all appropriate issues.
3. Make sure the text is as up-to-date as possible with regard to current events, statistics, and examples.

As part of the revision process, *changes have been made to every chapter in the book.* The following are *examples* of the kind of changes that have been made in the text.

Chapter 1: Globalization. All the statistics pertaining to globalization (such as the growth of world trade, output, and foreign direct investment) have been updated to incorporate the most recently available data. The chapter has been revised to include new material on the growing wave of protests against globalization, which began at the World Trade Organization meeting in Seattle in December 1999 and have continued at a steady pace since. The section dealing with the debate between scholars on the merits and drawbacks of globalization has been expanded. This debate is concerned with the impact of globalization on job security, income levels, labor policies, economic growth, the environment, and national sovereignty.

Chapter 2: Country Differences in Political Economy. The section on economic development has been expanded to include a review of the work of Amartya Sen, who recently won the Nobel Prize in economics. Sen has argued that development should be assessed less by material output measures such as GNP per capita and more by the capabilities and opportunities that people enjoy. The discussion of differences in legal systems has been rewritten to give greater emphasis to the negative impact of corruption in a country on its economic development. There is also an expanded discussion dealing with the protection of intellectual property rights, which takes into account some recent developments, such as the decision by some governments to allow the sale of cheap generic versions of patented medicines—including a powerful new drug for treating AIDS—without permission from the patent owner.

Chapter 3: Differences in Culture. The Implications for Business section of this chapter has been expanded to incorporate a more detailed discussion of the implications of difference in culture for business ethics. Although many ethical principles are universal, some are culturally bounded. When this is the case, international businesses may be confronted with some difficult ethical dilemmas.

Chapter 4: International Trade Theory. Over the past few years, a number of empirical studies have been published that look at the relationship between a country's "openness" to international trade and its economic growth. This work is now discussed in this chapter. The work gives empirical support to the theory of comparative advantage.

Chapter 5: The Political Economy of International Trade. The chapter has been significantly updated to reflect the recent activities of the World Trade Organization (WTO). This includes an assessment of the record of the WTO in resolving trade disputes between nations. There is also a review of recent multinational agreements, brokered by the WTO, to liberalize cross-border trade and investment in financial services and telecommunications. There is a discussion of the decision to allow China to enter the WTO. Finally, the revised chapter contains a discussion of the future of the WTO in the aftermath of the Seattle protests against globalization.

Chapter 6: Foreign Direct Investment. The chapter has been updated to include all recent statistics of trends in foreign direct investment. Recent data emphasize the important fact that the majority of cross-border investments in recent years have taken the form of mergers and acquisitions, rather than greenfield investments. The reasons for this empirical phenomenon are now discussed in the chapter.

Chapter 7: Regional Economic Integration. In January 1999, 11 member states of the European Union officially adopted a common currency unit, the euro. This chapter has been revised to include an expanded discussion of the merits and drawbacks of the euro, and a review and assessment of the early history of the euro. The chapter also includes a new discussion of the competition policy of the European Commission. This has become increasingly important to international businesses in recent years. For example, in 2001 the European Commission ruled against a proposed merger between two U.S. companies, General Electric and Honeywell, on the grounds that it would reduce competition in the European Union.

Chapter 10: Global Strategy. An emerging theme in the strategy literature has been the extent to which multinational companies can leverage the skills and competencies of their foreign subsidiaries, using them to benefit the entire corporation. A new section has been added to Chapter 10 to discuss this important benefit of international expansion.

Chapter 11: Entering Foreign Markets. A new section in this chapter looks at the choice between acquisitions and greenfield ventures as alternative strategies for entering foreign markets and establishing a wholly owned subsidiary. The pros and cons associated with each alternative are now discussed in depth in the chapter.

Chapter 14: Global Manufacturing and Materials Management. Web-based information systems now play a crucial role in materials management in the international business. By tracking component parts as they make their way across the globe toward an assembly plant, Web-based information systems enable a firm to optimize its production scheduling according to when components are expected to arrive. A new section has been added to this chapter to discuss this trend.

INSTRUCTOR SUPPORT MATERIAL

Instructor's Manual/Test Bank (Located on the Instructor's CD-ROM)

The Instructor's Manual, prepared by Veronica Horton of the University of Akron, and Test Bank, prepared and updated by Amit Shah at Frostburg State University, contains chapter overviews, teaching suggestions, and lecture notes. The Test Bank portion for this edition contains approximately 100 questions per chapter.

Computerized Testing for Windows (Located on the Instructor's CD-ROM)

A computerized version of the test bank allows the instructor to generate random tests and to add his or her own questions.

PowerPoint® Presentation Slides (Located on the Instructor's CD-ROM)

The PowerPoint presentation, by Jeanne McNett of Assumption College, contains a blend of material from the text and also new material, amounting to approximately 15 to 20 slides per chapter.

Instructor's CD-ROM (007-285221-6)

The Instructor's Manual, the PowerPoint® slides, and Test Bank are compiled in electronic format on a CD for your convenience in customizing lecture presentations. There are also additional digitized videos for you to choose from.

Video Collection (007-253794-9)

This edition will also include an improved video collection, consisting of NBC News footage and original business documentaries for each chapter. Professor Video Notes and student video exercises will be available online. For a comprehensive lineup of video selections for each chapter, please see the Online Learning Center for complete details.

Instructor Resources and Online Learning Center

This password-protected instructor section of the book website, available to adopters of *Global Business Today,* will provide coverage of the latest in online news and links relating to international business, countries, and situations referenced in the text. Other online and downloadable teaching resources will be available for the instructor as well.

STUDENT RESOURCES

Global Business Plan Project and Resource CD

Each new copy of the book is packaged with a free Global Business Plan Project and Interactive Atlas CD. Designed by Les Dlabay of Lake Forest College for use in his own international business class, the global business plan project helps students create their own plan to launch a new business venture. As students work through the activities in each module, they can link to glossary terms from the book, view related video clips, or launch to the book website and Internet. New to this edition, the interactive "Business Around the World" atlas allows students to research information about doing business in various countries by clicking on an area on the map to access business news and analysis, general facts, and business guidelines.

Student Online Learning Center

Online Learning Center www.mhhe.com/hillgbt3e content is ancillary and supplementary germane to the textbook. As students read the book, they can go online to take self-grading quizzes, review material, or work through interactive exercises. Hill's Global Business Today will include such items for the student as key term flashcards; other self-assessment links; and much more. OLCs can be delivered multiple ways—professors and students can access them directly through the textbook website, through PageOut, or within a course management system (i.e., WebCT, Blackboard, TopClass, or eCollege).

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LEARNING FEATURES

Charles W. L. Hill's *Global Business Today* has a rich selection of learning features that highlight companies' ups and downs in the international business arena, stimulate learning and understanding, and challenge students to respond.

Learning Objectives

A chapter road map for your students, the Learning Objectives tell them what they will know after completing the chapter.

threat of social sanctions is often sufficient to ensure that favors are repaid, that obligations are met, and that relationships are honored. In a society that lacks a rule-based legal tradition, and thus legal ways of redressing wrongs such as violations of business agreements, *guanxi* is an important mechanism for building long-term business relationships and getting business done in China. There is a tacit acknowledgment that if you have the right *guanxi*, legal rules can be broken, or at least bent. Li Ka-shing had the right *guanxi;* McDonald's apparently did not.

As they have come to understand this, many Western businesses have tried to build *guanxi* to grease the wheels required to do business in China. Increasingly, *guanxi* has become a commodity that is for sale to foreigners. Many of the sons and daughters of high-ranking government officials have set up "consulting" firms and offered to mobilize their *guanxiwang* or those of their parents to help Western companies navigate their way through Chinese bureaucracy. Taking advantage of such services, however, requires good ethical judgment. There is a fine line between relationship building, which may require doing favors to meet obligations, and bribery. Consider the case of a lucrative business contract that was under consideration for more than a year between a large Chinese state-owned enterprise and two competing multinational firms. After months of negotiations, the Chinese elected to continue discussions with just one of the competitors—the one that had recently hired the son of the principal Chinese negotiator at a significant salary. This occurred even though the favored firm's equipment was less compatible with Chinese equipment already in place than that offered by the rejected multinational. The clear implication is that the son of the negotiator had mobilized his *guanxiwang* to help his new employer gain an advantage in the contract negotiations. While hiring the son of the principal negotiator may be viewed as good business practice by some in the context of Chinese culture, others might argue that this action was ethically suspect and could be viewed as a thinly concealed bribe.

Sources: S. D. Seligman, "Guanxi: Grease for the Wheels of China," *China Business Review*, September/October 1999, pp. 34–38; L. Dana, "Culture Is the Essence of Asia," *Financial Times*, November 27, 2000, p. 12; L. Minder, "McDonald's to Close Original Beijing Store," *USA Today*, December 2, 1996, p. 1A; and M. W. Peng, *Business Strategies in Transition Economies* (Thousand Oaks, CA: Sage Publications, 2000).

LEARNING OBJECTIVES

1. Understand that substantial differences between societies arise from cultural differences.
2. Know what is meant by the term *culture*.
3. Appreciate that cultures vary because of differences in social structure, religion, language, education, economic philosophy, and political philosophy.
4. Understand the relationship between culture and the values found in the workplace.
5. Appreciate that culture is not a constant, but changes over time.
6. Appreciate that much of the change in contemporary social culture is being driven by economic advancement, technological change, and globalization.
7. Understand the implications for international business management of differences among cultures.

INTRODUCTION

International business is different from domestic business because countries are different. In Chapter 2 we saw how national differences in political, economic, and legal systems influence the benefits, costs, and risks associated with doing business in different countries. In this chapter, we will explore how differences in culture across and within countries can affect international business. Several themes run through this chapter.

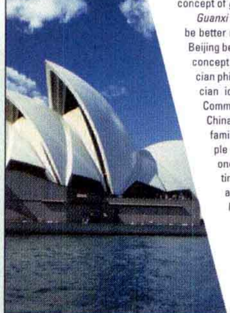
The first theme is that business success in a variety of countries requires cross-cultural literacy. By cross-cultural literacy, we mean an understanding of how cultural differences across and within nations can affect the way business is practiced. In these

OPENING CASE

Guanxi—Ties That Bind

In 1992, McDonald's Corporation opened its first restaurant in Beijing, China, after a decade of market research. The restaurant, then the largest McDonald's in the world, was located on the corner of Wangfujing Street and the Avenue of Eternal Peace, just two blocks from Tiananmen Square, the very heart of China's capital. The location choice seemed auspicious, and within two years, sales at the restaurant were surpassing expectations. Then the Beijing city government dropped a bombshell; officials abruptly informed McDonald's that it would have to make way for a commercial, residential, and office complex planned by Hong Kong developer Li Ka-shing. At the time, McDonald's still had 18 years left on its 20-year lease. A stunned McDonald's did what any good Western company would do—it took the Beijing city government to court to try to enforce the lease. The court refused to enforce the lease, and McDonald's had to move. Chinese observers had a simple explanation for the outcome. McDonald's, they said, lacked the *guanxi* of Li Ka-shing. Given this, how could the company expect to prevail? Company executives should have accepted the decision in good grace and moved on, but instead, McDonald's filed a lawsuit—a move that would further reduce what *guanxi* McDonald's might have with the city government!

This example illustrates a basic difference between doing business in the West and doing business in China. In the advanced economies of the West, business transactions are conducted and regulated by the centuries-old framework of contract law, which specifies the rights and obligations of parties to a business contract and provides mechanisms for seeking to redress grievances if one party in the exchange fails to live up to the legal agreement. In the West, McDonald's could have relied on the courts to enforce its legal contract with the Beijing government. In China, this approach didn't work. China does not have the same legal infrastructure. Personal power and relationships or connections, rather than the rule of law, have always been the key to getting things done in China. Decades of Communist rule stripped away the basic legal infrastructure that did exist to regulate business transactions. Power, relationships, and connections are an important, and some say necessary, influence on getting things done and enforcing business agreements in China. The key to understanding this process is the concept of *guanxi*.



Guanxi literally means relationships, although in business settings it can be better understood as "connections." McDonald's lost its lease in central Beijing because it lacked the *guanxi* enjoyed by the powerful Li Ka-shing. The concept of *guanxi* is deeply rooted in Chinese culture, particularly the Confucian philosophy of valuing social hierarchy and reciprocal obligations. Confucian ideology has a 2,000-year history in China, and half a century of Communist rule has done little to dent its influence on everyday culture in China. Confucianism stresses the importance of relationships, both within the family and between master and servant. Confucian ideology teaches that people are not created equal. In Confucian thought, loyalty and obligations to one's superiors (or to family) is regarded as a sacred duty, but at the same time, this loyalty has its price. Social superiors are obligated to reward the loyalty of their social inferiors by bestowing "blessings" upon them; thus, the obligations are reciprocal.

Today, Chinese will often cultivate a *guanxiwang*, or "relationship network," for help. Reciprocal obligations are the glue that holds such networks together. If those obligations are not met—if favors done are not paid back or reciprocated—the reputation of the transgressor is tarnished and he or she will be less able to draw on *guanxiwang* for help in the future. Thus, the implicit

Opening Case

Each chapter begins with an engaging opening case that sets the stage for the chapter. These brief but interesting case studies introduce students to critical issues and often challenge their preconceptions. For actual countries/organizations providing rich, introductory examples, look to each chapter's opening case.

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ANOTHER PERSPECTIVE

A hierarchy of concepts?
Perhaps culture is a deeper level concept, one upon which the values of the economic, political, and legal systems rest. For example, the United States adopts legislation whose goal is to maintain fairness and a level playing field. These values are consistent with a culture that has a low power distance and values the individual. The high levels of competition in the U.S. economy, both among companies and among individuals, can be seen to support the high levels of individualism that are central to U.S. culture. Contrast the focus on the individual in the United States with the Chinese value of *guanxi*. The U.S. notion of fairness, the level playing field, can be seen as the basis for prohibiting insider trading in the United States. Yet for the Chinese, *quanxi* suggests that the holder of privileged information relevant to the market would have an obligation to share this information with friends. Such an obligation supports networked, close relationships and obligation to the group.

Another Perspective

With four to five examples per chapter, Another Perspective boxes provide students an alternate way of thinking about important global issues presented in the text. These not only hone students' critical thinking skills but also give a deeper understanding to a topic nearby.

COUNTRY FOCUS

40 YEARS OF CORRUPTION IN NIGERIA

When Nigeria gained independence from Great Britain in 1960, there were hopes that the country might emerge as an economic heavyweight in Africa. Not only was Nigeria Africa's most populous country, but it was also blessed with abundant natural resources, particularly oil, which rose sharply in value in the 1970s after two rounds of increases in oil prices engineered by the Organization of Petroleum Exporting Countries (OPEC). Between 1970 and 2000, Nigeria earned more than $300 billion from the sale of oil, but at the end of this period it remained one of the poorest countries in the world. In 2000, gross national product per capita was just $300, 40 percent of the adult population was illiterate, life expectancy at birth was only 50 years, and the country was begging for relief on $30 billion in debt. The Human Development Index compiled by the United Nations ranked Nigeria 151 out of 174 countries covered.

What went wrong? Although there is no simple answer, a number of factors seem to have conspired to damage economic activity in Nigeria. The country is composed of several competing ethnic, tribal, and religious groups, and the conflict between them has limited political stability and led to political strife, including a brutal civil war in the 1970s. With the legitimacy of the government always in question, political leaders often purchased support by legitimizing bribes and by raiding the national treasury to reward allies. Civilian rule after independence was followed by a series of military dictatorships, each of which seemed more corrupt and inept than the last (the country returned to civilian rule in 1999).

The most recent military dictator, Sani Abacha, openly and systematically plundered the state treasury for his own personal gain. His most blatant scam was the Petroleum Trust Fund, which he set up in the mid-1990s ostensibly to channel extra revenue from an increase in fuel prices into much-needed infrastructure projects and other investments. The fund was not independently audited and almost none of the money that passed through it was properly accounted for. It was, in fact, a vehicle for Abacha and his supporters to spend a sum that in 1996 was equivalent to some 25 percent of the total federal budget. Abacha, aware of his position as an unpopular and unelected leader, lavished money on personal security and handed out bribes to those whose support he coveted. With examples like this at the very top of the government, it is not surprising that corruption could be found throughout the political and bureaucratic apparatus.

Some of the excesses were astounding. In the 1980s, an aluminum smelter was built on the orders of the government, which wanted to industrialize Nigeria. The cost of the smelter was $2.4 billion, some 60 to 100 percent higher than the cost of comparable plants elsewhere in the developed world. This high cost was widely interpreted to reflect the bribes that had to be paid to local politicians by the international contractors that built the plant. The smelter has never operated at more than a fraction of its intended capacity. Another example of corruption in Nigeria was the cement scandal of the early 1980s. At that time, the president announced a grand public housing project. Public officials promptly ordered vast quantities of cement from foreign contractors, taking a percentage of each contract in the form of a kickback. They ordered far more cement than was needed and more than Nigerian ports could cope with. Soon ships loaded with cement formed a line that stretched for several miles outside of Lagos harbor and that took months to unload. Meanwhile, the officials responsible were making a fortune from selling cement import licenses.

Sources: "A Tale of Two Giants," *The Economist, Nigeria: a Survey*, January 15, 2000, p. 5; J. Coolidge and S. Rose Ackerman, "High Level Rent Seeking and Corruption in African Regimes," World Bank policy research working paper #1780, June 1997; and D. L. Bevan, P. Collier, and J. W. Gunning, *Nigeria and Indonesia: The Political Economy of Poverty, Equity and Growth* (Oxford: Oxford University Press, 1999).

The philosophy behind intellectual property laws is to reward the originator of a new invention, book, musical record, clothes design, restaurant chain, and the like, for his or her idea and effort. Such laws are a very important stimulus to innovation and creative work. They provide an incentive for people to search for novel ways of doing things, and they reward creativity. For example, consider in-

Country Focus

Country Focus boxes provide real-world examples of how different countries grapple with the political, economic, social, or cultural issues facing them.

COULD YOU DO THIS?

ENTREPRENEURIAL PEER PROFILE: LYNDA M. LUNA

SUDDENLY LYNDA

Suddenly three years ago when she was only 22, Lynda Luna's life took an unexpected turn. She and her fiancé sold all their possessions and moved from California to the Philippines to get married and run his family's international trading company. Once there, however, Lynda broke off the engagement. Practically overnight she found herself in a foreign country without any family and only a few friends made through her now ex-fiancé. Although Lynda was born in the Philippines, she emigrated to the United States when she was 10. When she ended the engagement, she determined not to return home without proving to her parents and to her self that she could make it on her own. Her biggest concern was that she had disappointed her family.

Lynda decided to go after part of her dream. Instead of operating a his-and-hers business, it would now be hers alone. Lynda had some previous experience in international trade. While still in the United States, she and her fiancé ran RITZ International Trading on a part-time basis. They imported native Filipino products such as baskets. She handled the paperwork while he handled the sales and the vendors. "R was the initial of his first name; I stood for international; and T for trading. The Z was added for class," according to Lynda.

Through a friend in the Philippines, she met the owner of a chain of cellular phone stores. He was very interested in obtaining products from the United States where the market was saturated and prices were cheaper. She believed she could handle the job. For three months, Lynda worked at his retail store and visited service providers to acquaint herself with the products and the industry. She then returned to California and began supplying him with cellular phones and beepers.

Now at 25, as general manager of RITZ International Trading, she has been shipping product to the Philippines for more than two years. She retained the RITZ name in the amicable split. "Why waste a perfectly good name and logo," Lynda reasoned. She uses the general manager title because it conveys that she oversees everything.

"It has never been easier to start your own international business if you are resourceful," Lynda believes, "because of the plenitude of resources provided by the Chamber of Commerce, the Small Business Administration, the Internet, and the library."

Working as a reseller, Lynda locates the best suppliers. If the order is not too large, she packages the products herself. Otherwise she arranges for packaging through the supplier. She also arranges for a freight forwarder to ship the product.

Lynda has now developed a network of approximately 20 retailers and distributors in California from whom she buys and 2 in Hong Kong. She made her original contacts with the U.S. suppliers at the annual Consumer Electronics Trade Show in Las Vegas. She obtained additional suppliers from directories put out by the U.S. Department of Commerce and from listings in trade journals. She obtained her Hong Kong suppliers from the recommendations of friends.

When she needs to place an order, she makes her decision based on three Ps: product, price, and promptness. The supplier must have the right product available in the right quantities. The supplier must return her calls promptly and should offer her a good price. Even if all the elements are present, Lynda will test a new supplier with a small order before risking a large one.

Lynda has had very good experience with her suppliers. "Since many of the ones I deal with typically do not sell in such large volumes, they really try to provide me with good service," says Lynda. "However, it is very important to meet with the suppliers in person and to establish relationships."

According to Lynda there are differences when dealing with suppliers from the United States versus those in Hong Kong. Suppliers in the United States are satisfied if you visit them once or twice a year, and telephone contact may be adequate. Those in Hong Kong not only want you to visit and take them out to dinner but also bring a present. "Anything from ties to jewelry to shoes is acceptable as long as it has a designer label." Lynda visits her suppliers in Hong Kong at least once a year armed with presents usually purchased on Rodeo Drive in Beverly Hills.

Proper packaging is critical. She must meet the buyer's specifications precisely. Otherwise there may be problems with breakage or even entry into the Philippines.

Lynda has selected her freight forwarders both in the United States and in Hong Kong based on the recommendations of friends. She has received very good service from her freight forwarders, which is essential when delivery speed is critical. Since the product life cycle of cellular phones is short, the retailer in the Philippines commands his best price when demand is high but supplies are limited. Typically the elapsed time between order placement and delivery is only a week.

Lynda manages to run RITZ part time while attending a state university full time. "In reality when you have your own business, especially an international one, you are always on call," Lynda says. Her bedroom is her office, and the fax machine is next to her bed.

Over the last two years, Lynda estimates that she has filled six to seven orders ranging from 5,000 to 10,000 units each. So far the volume has been steady. Lynda predicts that the cellular telephone market is on the verge of accelerating for a number of reasons. It is difficult to get a landline in the Philippines. Per capita income is increasing, and the affluent are very concerned with conspicuous consumption.

Statistics bear out Lynda's observations. According to an industry analysis, "The mobile wireless segment is the most dynamic in terms of growth, competition, and technology. The

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"Could You Do This?" Entrepreneurial Peer Profile

Located after nearly every chapter, Entrepreneurial Peer Profiles feature real students' entrepreneurial drive and their mission to run their own international businesses.

Management Focus

Management Focus boxes illustrate the relevance of chapter concepts for the practice of international business.

MANAGEMENT FOCUS

FREE TRADE AND REI

Recreational Equipment Inc. (REI) is a buyer's cooperative that has grown into one of the major suppliers of outdoor equipment in the United States and has a rapidly growing international business. Started in Seattle in 1938 by Lloyd Anderson, the company provided high-quality climbing gear at a low price to members of the cooperative. For its first 37 years, REI operated a single store in Seattle, but in 1975 the cooperative started opening stores in other cities. Today REI has annual sales of $621 million, 60 stores worldwide, 6,600 employees, revenue growth of 8 to 10 percent annually, and a goal of opening three to five retail outlets per year. Despite the growth, REI is still organized as a cooperative with 1.7 million active members. All members receive a dividend check at the end of each year that amounts to about 10 percent of the value of their purchases during the year (one does not have to be a member to shop at REI). REI also has one of the fastest growing, and most profitable, Internet sites in the retail industry, which registered revenues of $41.2 million in 1999, up 300 percent from a year earlier.

To supply some of its own product needs, REI has two subsidiaries. One of these, Thaw, has been supplying REI with a range of gear, including tents, backpacks, sleeping bags, and clothing, for 33 years. In recent years, Thaw has concentrated on producing fleece clothing items for REI's stores. Unfortunately for Thaw's 200 employees, the economics of manufacturing garments in the United States have been changing for several years. Following passage of the North American Free Trade Agreement (NAFTA) in 1993, all tariffs on trade in textile garments between the United States and Mexico were dropped (a tariff is a tax on imports). In the following years, an increasing number of textile operations shut down in the United States and moved to Mexico, attracted by lower labor costs. Wage rates for textile workers in Mexico run about $5 to $10 a day, compared to $8 to $10 an hour at Thaw's operation. For a labor-intensive operation such as garment production, these wage differentials are significant. Given these economics, in mid-2000 REI announced it would close its Thaw subsidiary and source its fleece products from Mexico. By shifting its production to Mexico, REI expects to reduce the cost of its fleece items by 20 percent. That means lower prices for REI's members and other customers and bigger profits for REI, which translates into larger dividend checks for REI's members. It also means its employees at Thaw will be out of a job. To assist its former employees at Thaw, REI added funds to federal money to assist with job retraining, unemployment benefits, and health insurance.

The events at Thaw are being repeated across the country. Since 1993, about 450,000 jobs have been lost in the U.S. garment industry as production has moved to low-wage countries such as Mexico. Former textile workers, most of whom are low skilled, have found it difficult to find alternative full-time employment. The Department of Labor estimates that between 1995 and 1997, 58 percent of unemployed textile workers failed to find full-time jobs, while for the 42 percent that did, their average wage dropped by some 20 percent. As painful as this has been for textile workers, the American consumer has gained from lower prices, and American companies in many other industries have seen their sales to Mexico boom as trade barriers have come down. Thus, while a strong case can be made that NAFTA has benefited the majority of Americans and Mexicans alike, it has inflicted pain on some groups, such as U.S. textile workers, and forces some companies, such as REI, to make difficult managerial decisions.

Source: R. T. Nelson, "REI's Globalization," *Seattle Times*, May 14, 2000, pp. D1, D2, and E. Chabrow, "REI Gets Head Start in Clicks and Mortar Race," *Information Week*, May 1, 2000.

Second, free trade might also increase the efficiency with which a country uses its resources. Gains in the efficiency of resource utilization could arise from a number of factors. For example, economies of large-scale production might become available as trade expands the size of the total market available to domestic firms. Trade might make better technology from abroad available to domestic firms; bet-

IMPLICATIONS FOR BUSINESS

International business is different from national business because countries and societies are different. In this chapter, we have seen just how different societies can be. Societies differ because their cultures vary. Their cultures vary because of profound differences in social structure, religion, language, education, economic philosophy, and political philosophy. Three important implications for international business flow from these differences. The first is the need to develop cross-cultural literacy. There is a need not only to appreciate that cultural differences exist, but also to appreciate what such differences mean for international business. A second implication looks at the connection between culture and ethics in decision making. A third implication for international business centers on the connection between culture and national competitive advantage. In this section, we will explore these issues in greater detail.

CROSS-CULTURAL LITERACY

One of the biggest dangers confronting a company that goes abroad for the first time is the danger of being ill-informed. International businesses that are ill-informed about the practices of another culture are likely to fail. Doing business in different cultures requires adaptation to conform with the value systems and norms of that culture. Adaptation can embrace all aspects of an international firm's operations in a foreign country. The way deals are negotiated, the appropriate incentive pay systems for salespeople, the structure of the organization, the name of a product, the tenor of relations between management and labor, the manner in which the product is promoted, and so on, are all sensitive to cultural differences. What works in one culture might not work in another.

ETHNOCENTRIC BEHAVIOR Behavior that is based on the belief in the superiority of one's own ethnic group or culture; often shows disregard or contempt for the culture of other countries.

To combat the danger of being ill-informed, international businesses should consider employing local citizens. They must also ensure that home-country executives are cosmopolitan enough to understand how differences in culture affect the practice of international business. Transferring executives overseas at regular intervals to expose them to different cultures will help build a cadre of cosmopolitan executives. An international business must also be constantly on guard against the dangers of **ethnocentric behavior.** Ethnocentrism is a belief in the superiority of one's own ethnic group or culture. Hand in hand with ethnocentrism goes a disregard or contempt for the culture of other countries. Unfortunately, ethnocentrism is prevalent; many Americans are guilty of it, as are many French people, Japanese people, British people, and so on. Ugly as it is, ethnocentrism is a fact of life, one that international businesses must be on continual guard against.

Implications for Business

At the end of nearly every chapter, "Implications for Business" spotlights the managerial implications of the material discussed in the chapter.

Closing Case

The closing case wraps up the material in the chapter by relating the experience of a company to the practice of international business.

CLOSING CASE

THE RISE OF THE INDIAN SOFTWARE INDUSTRY

As a relatively poor country, India is not normally thought of as a nation capable of building a major presence in a high-technology industry, such as computer software. In little more than a decade, however, the Indian software industry has astounded its skeptics and emerged from obscurity to become an important force in the global software industry. Between 1991–1992 and 1999–2000, sales of Indian software companies grew at a compound rate in excess of 60 percent annually. In 1991–1992, the industry had sales totaling $388 million. By 2000, they were about $6 billion. By the late 1990s, more than 900 software companies in India employed 200,000 software engineers, the third largest concentration of such talent in the world.

Much of this growth was powered by exports. In 1985, Indian software exports were worth less than $10 million. They surged to $1.8 billion in 1997 and hit a record $4 billion in 2000. The future looks very bright. Powered by continued export-led growth, India's National Association of Software and Service Companies projects that total software revenues generated by Indian companies will hit $28 billion by 2004–2005 and $87 billion by 2007–2008. As a testament to this growth, many foreign software companies are now investing heavily in Indian software development operations including Microsoft, IBM, Oracle, and Computer Associates, the four largest U.S.-based software houses. Equally significantly, two out of every five global companies now source their software services from India.

Most of the current growth of the Indian software industry has been based on contract or project-based work for foreign clients. Many Indian companies, for example, maintain applications for their clients, convert code, or migrate software from one platform to another. Increasingly, Indian companies are also involved in important development projects for foreign clients. For example, TCS, India's largest software company, has an alliance with Ernst & Young under which TCS will develop and maintain customized software for Ernst & Young's global clients. TCS also has a development alliance with Microsoft under which the company developed a paperless National Share Depositary system for the Indian stock market based on Microsoft's Windows NT operating system and SQL server database technology. Indian companies are also moving aggressively into e-commerce projects. From almost zero in 1997, e-commerce projects now account for about 10 percent of all software development and service work in India and are projected to reach 20 percent within two years.

The Indian software industry has emerged despite a poor information technology infrastructure. The installed base of personal computers in India stood at just 3 million in 1999, and this in a nation of nearly 1 billion people. With just 22 telephone lines per 1,000 people, India has one of the lowest penetration rates for fixed telephone lines in Asia, if not the world. Internet connections numbered less than 100,000 in 1998, compared to 60 million in the United States. But sales of personal computers are starting to take off, and the rapid growth of mobile telephones in India's main cities is to some extent compensating for the lack of fixed telephone lines.

In explaining the success of their industry, India's software entrepreneurs point to a number of factors. Although the general level of education in India is low, India's important middle class is highly educated and its top educational institutions are world class. Also, India has always emphasized engineering. Another great plus from an international perceptive is that English is the working language throughout much of middle-class India—a remnant from the days of the British raja. Then there is the wage rate. American software engineers are increasingly scarce, and the basic salary has been driven up to one of the highest for any occupational group in the country, with entry-level programmers earning $70,000 per year. An entry-level programmer in India, in contrast, starts at around $5,000 per year, which is very low by international standards but high by Indian standards. Salaries for programmers are rising rapidly in India, but so is productivity. In 1992, productivity was about $21,000 per software engineer. By 1997, the figure had risen to $45,000. As a consequence of these factors, by 2000 work done in India for U.S. software companies amounted to $25 to $35 an hour, compared to $75 to $100 per hour for software development done in the United States.

Another factor helping India is that satellite communications have removed distance as an obstacle to doing business for foreign clients. Because software is nothing more than a stream of zeros and ones, it can be transported at the speed of light and at negligible cost to any point in the world. In a world of instant communication, India's geographical position between Europe and the United States has given it a time zone advantage. Indian companies have been able to exploit the rapidly expanding international market for outsourced software services, including the expanding market for remote maintenance. Indian engineers can fix software bugs, upgrade systems, or process data overnight while their users in Western companies are asleep.

To maintain their competitive position, Indian software companies are now investing heavily in training and leading-edge programming skills. They have also been enthusiastic adopters of international quality standards, particularly ISO

END-OF-CHAPTER MATERIAL GEARED TOWARD YOUR STUDENTS

Key Terms and Summary

KEY TERMS

civil law, p. x
collectivism, p. x
command economy
common law, p. x
communist totalitarianism, p. x
communists, p. x
contract, p. x
contract law, p. x
copyrights, p. x
democracy, p. x
deregulation, p. x
economic risk, p. x
first-mover advantages, p. x
Foreign Corrupt Practices Act, p. x
Human Development Index (HDI), p. x
individualism, p. x
innovation, p. x
late-mover disadvantages, p. x
legal risk, p. x
legal system, p. x
market economy, p. x
mixed economy, p. x
Paris Convention for the Protection of Industrial Property, p. x
patent, p. x
political economy, p. x
political risk, p. x
political system, p. x
private action, p. x
privatization, p. x
product liability, p. x
product safety laws, p. x
property rights, p. x
public action p. x
purchasing power parity (PPP), p. x
representative democracy, p. x
right-wing totalitarianism, p. x
social democrats, p. x
theocratic law, p. x
theocratic totalitarianism, p. x
totalitarianism, p. x
Trade Related Aspects of Intellectual Property Rights (TRIPS), p. x
trademarks, p. x
tribal totalitarianism, p. x
United Nations Convention on Contracts for the International Sale of Goods (CIGS), p. x

SUMMARY

This chapter has reviewed how the political, economic, and legal systems of different countries vary. The potential benefits, costs, and risks of doing business in a country are a function of its political, economic, and legal systems. These major points were made in the chapter:

1. Political systems can be assessed according to two dimensions: the degree to which they emphasize collectivism as opposed to individualism, and the degree to which they are democratic or totalitarian.
2. Collectivism is an ideology that views the needs of society as being more important than the needs of the individual. Collectivism translates into an advocacy for state intervention in economic activity and, in the case of communism, a totalitarian dictatorship.
3. Individualism is an ideology built on an emphasis of the primacy of individual's freedoms in the political, economic, and cultural realms. Individualism translates into an advocacy for democratic ideals and free market economics.
4. Democracy and totalitarianism are at different ends of the political spectrum. In a representative democracy, citizens periodically elect individuals to represent them and political freedoms are guaranteed by a constitution. In a totalitarian state, political power is monopolized by a party, group, or individual, and basic political freedoms are denied to citizens of the state.
5. There are three broad types of economic systems: a market economy, a command economy, and a mixed economy. In a market economy, prices are free of controls and private ownership is predominant. In a command economy, prices are set by central planners, productive assets are owned by the state, and private ownership is forbidden. A mixed economy has elements of both a market economy and a command economy.
6. Differences in the structure of law between countries can have important implications for the practice of international business. The degree to which property rights are protected can vary dramatically from country to country, as can product safety and product liability legislation and the nature of contract law.
7. The rate of economic progress in a country seems to depend on the extent to which that country has a well-

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Critical Thinking and Discussion Questions and Internet Exercises

3. A product can be viewed as a bundle of attributes. Product attributes need to be varied from country to country to satisfy different consumer tastes and preferences.
4. Country differences in consumer tastes and preferences are due to differences in culture and economic development. In addition, differences in product and technical standards may require the firm to customize product attributes from country to country.
5. A distribution strategy decision is an attempt to define the optimal channel for delivering a product to the consumer.
6. Significant country differences exist in distribution systems. In some countries, the retail system is concentrated; in others, it is fragmented. In some countries, channel length is short; in others, it is long. Access to distribution channels is difficult to achieve in some countries.
7. A critical element in the marketing mix is communication strategy, which defines the process the firm will use in communicating the attributes of its product to prospective customers.
8. Barriers to international communication include cultural differences, source effects, and noise levels.
9. A communication strategy is either a push strategy or a pull strategy. A push strategy emphasizes personal selling, and a pull strategy emphasizes mass media advertising. Whether a push strategy or a pull strategy is optimal depends on the type of product, consumer sophistication, channel length, and media availability.
10. A globally standardized advertising campaign, which uses the same marketing message all over the world, has economic advantages, but it fails to account for differences in culture and advertising regulations.
11. Price discrimination exists when consumers in different countries are charged different prices for the same product. Price discrimination can help a firm maximize its profits. For price discrimination to be effective, the national markets must be separate and their price elasticities of demand must differ.
12. Predatory pricing is the use of profit gained in one market to support aggressive pricing in another market to drive competitors out of that market.
13. Multipoint pricing refers to the fact a firm's pricing strategy in one market may affect rivals' pricing strategies in another market. Aggressive pricing in one market may elicit a competitive response from a rival in another market that is important to the firm.
14. Experience curve pricing is the use of aggressive pricing to build accumulated volume as rapidly as possible to quickly move the firm down the experience curve.
15. New-product development is a high-risk, potentially high-return activity. To build a competency in new-product development, an international business must do two things: (*a*) disperse R&D activities to those countries where new products are being pioneered and (*b*) integrate R&D with marketing and manufacturing.
16. Achieving tight integration among R&D, marketing, and manufacturing requires the use of cross-functional teams.

CRITICAL THINKING & DISCUSSION QUESTIONS

1. Imagine you are the marketing manager for a U.S. manufacturer of disposable diapers. Your firm is considering entering the Brazilian market. Your CEO believes the advertising message that has been effective in the United States will suffice in Brazil. Outline some possible objections to this. Your CEO also believes that the pricing decisions in Brazil can be delegated to local managers. Why might she be wrong?
2. Within 20 years, we will have seen the emergence of enormous global markets for standardized consumer products. Do you agree with this statement? Justify your answer.
3. You are the marketing manager of a food products company that is considering entering the South Korean market. The retail system in South Korea tends to be very fragmented. Also, retailers and wholesalers tend to have long-term ties with South Korean food companies, which makes access to distribution channels difficult. What distribution strategy would you advise the company to pursue? Why?
4. Price discrimination is indistinguishable from dumping. Discuss the accuracy of this statement.
5. You work for a company that designs and manufactures personal computers. Your company's R&D center is in North Dakota. The computers are manufactured under contract in Taiwan. Marketing strategy is delegated to the heads of three regional groups: a North American group (based in Chicago), a European group (based in Paris), and an Asian group (based in Singapore). Each regional group develops the marketing approach within its region. In order of importance, the largest markets for your products are North America, Germany, Great Britain, China, and Australia. Your company is experiencing problems in its product development and commercialization process. Products are late to market, the manufacturing quality is poor, costs are higher than projected, and market acceptance of new products is less than hoped for. What might be the source of these problems? How would you fix them?

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INTERNET EXERCISES

1. Theodore Levitt argued that markets are converging, that consumers are becoming more alike in their tastes and expectations and therefore companies no longer need to develop products and promotions designed for individual markets, but instead can take a standardized approach to their marketing strategy. McDonald's is often cited as the archetypal example of Levitt's theory. Sure, the company alters its menu in minor ways, but the basic idea is still the same—fast food in a clean, familiar, well-lit environment served the same way in Peoria as it is in Prague. Or is it? It seems that McDonald's is changing its tune. In Paris, the golden arches, the quintessential trademark of McDonald's, are disappearing as are the utilitarian chairs and tables that are standard fixtures in every McDonald's. In their place are hardwood floors, exposed beams, armchairs, and TVs playing music videos. Faced with stiff competition from fast baguettes, the company is replacing the consistency that has served the fast-food giant so well for half a century with a more localized approach featuring theme restaurants with, among other things, ski chalet-like environments, espresso, and brioche.

   Go to McDonald's website (www.mcdonalds.com), click on France, and examine the new strategy more closely. Then click on the United Kingdom and see the changes that are taking place there as well. While McDonald's enhanced decor strategy appears to be a success story in France, the company has just begun to extend the new strategy to the United Kingdom. So far though, no effort has been made to implement the strategy in the United States where some analysts contend it wouldn't work because suburban Americans simply want fast food and really don't care about their surroundings. Do you agree with this argument? Why or why not? Consider whether McDonald's experience in France may be typical of other markets. Discuss the implications of the new strategy both from a global marketing perspective and from a global operations perspective. How can the new strategy fit in with the company's basic philosophy of selling essentially the same thing essentially the same way everywhere?
2. Picture yourself driving a Jeep Grand Cherokee through central Munich's narrow streets and tight corners. Now imagine stopping at a gas station and spending $75 to fill the tank on your SUV. Sound like a recipe for disaster? Not so! The SUV market is the fastest growing car market in Europe, and automakers are taking note. European consumers, like their American counterparts, enjoy the sense of safety imparted by SUVs as well as the vehicle's higher ride. In addition, "Europeans believe that smarter people have SUVs," one analyst says. Some automakers are selling their popular U.S. vehicles such as the Jeep Grand Cherokee and Toyota's RAV 4 in Europe. Other companies are introducing new models designed specifically for the European market. Ford, for example, has designed the Fusion, a vehicle that offers the high ride and space of an SUV but has small-car dimensions. Automakers are also using references to "sports activity vehicles" and "urban activity vehicles" rather than SUV, hoping to appeal to European buyers who don't buy into the American SUV culture. In addition, to counter the high cost of unleaded gasoline that is roughly 40 percent more expensive than diesel, nearly all SUVs in Europe are available with diesel engines.

   So far, SUVs hold only about 4 percent of the overall market in Europe, considerably lower than the 24 percent market share in the United States. However, automakers are convinced there is huge market potential and are responding with both existing models and those customized specifically for European customers. Using the framework presented in your text, analyze how automakers are responding to the market opportunities for SUVs in Europe. Consider each part of the marketing mix and compare the strategies used in Europe to those implemented in the United States. Go to the websites of several automakers such as Ford (www.ford.com), BMW (www.bmw.com), DaimlerChrysler (www.daimlerchrysler.com), and Toyota (www.toyota.com). Click on the European sites and compare the product offerings and promotional materials of each company. Do you see any trends emerging as to how companies are treating the European market? What are the implications of your findings for the industry? How would Theodore Levitt view the global SUV market?

Sources: "Armchairs, TVs and Espresso—Is It McDonald's?" *Wall Street Journal*, August 30, 2002, p. A1, and "Despite Its Narrow Roadways, Europe Develops Taste for SUVs," *Wall Street Journal*, August 7, 2002, p. D6.

After studying the preceding material, be sure to check our website at
www.mhhe.com/hillgbt3e
for accompanying exercises utilizing **PowerWeb**.

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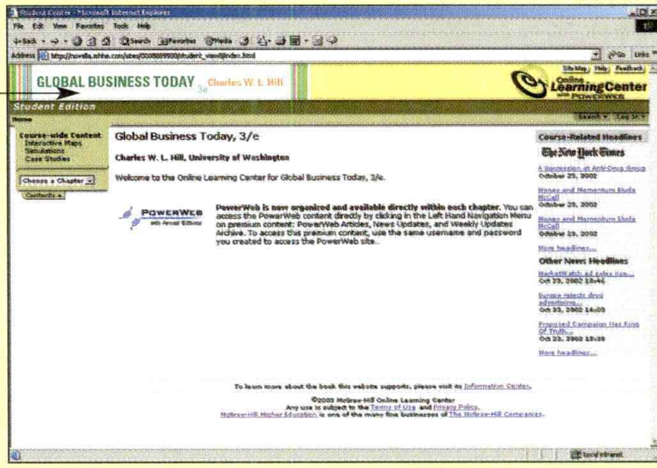
STUDENT SUPPLEMENTS

Online Learning Center
www.mhhe.com/hillgbt3e

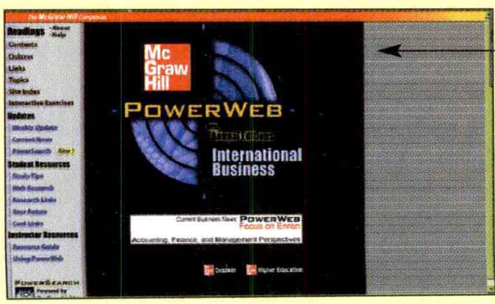


The Online Learning Center (OLC) is a website that follows the text chapter by chapter, with additional materials and quizzing that enhances the text and/or classroom experience. As students read the book, they can go online to take self-grading quizzes, review material, work through interactive exercises, or utilize the fully-integrated PowerWeb. This online resource provides high quality, peer-reviewed content including up-to-date articles from leading periodicals and journals, current news, weekly updates, and much more. The website will also link to our new International Business Online site, offering readings and accompanying exercises.

Global Business Plan and Resource CD-ROM

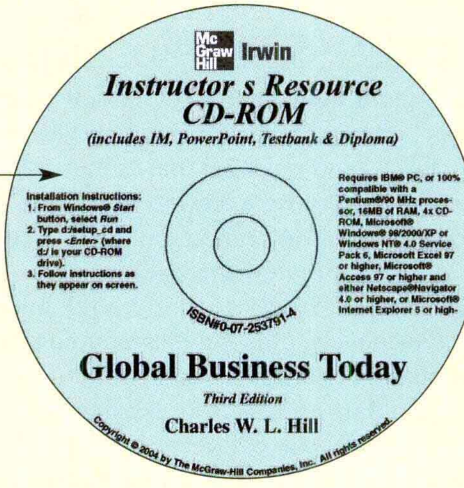
The Global Business Plan Project helps students create their own plan to launch a new business venture. As students work through the activities, they can link to terms, view videoclips, link to the text's Online Learning Center, or utilize our new "Business Around the World" feature. This feature allows students to research doing business in various countries by clicking on areas on the map to access business news and analysis, general facts, and business guidelines.

McGraw-Hill's Power Web



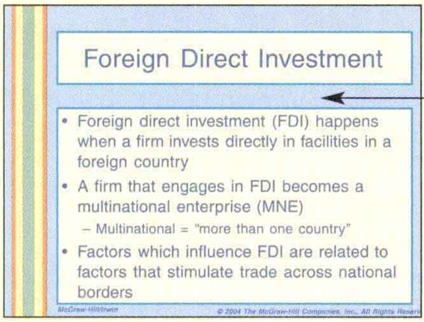
Harness the assets of the Web by keeping current with PowerWeb! This online resource provides high-quality, peer-reviewed content including up-to-date articles from leading periodicals and journals, current news, weekly updates, interactive exercises, Web research guide, study tips, and much more! Ask your sales representative how to get the Hill, *Global Business Today,* 3/e PowerWeb package.

INSTRUCTOR SUPPLEMENTS



Instructor's Manual/Test Bank

Located on the Instructor's CD-ROM, this comprehensive teaching guide includes course outlines, chapter overviews and teaching suggestions, teaching notes for all cases in the book, and sources of additional readings and information.



PowerPoint

Also found on the Instructor's CD-ROM, an extensive collection of PowerPoint slides features key topics from the text in outline form, along with additional information not in the text.

Videos

The new video collection features PBS and NBC News footage and original business documentaries that relate to examples and cases in the text.

BRIEF CONTENTS

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