


Global Business Today

Charles W. L. Hill



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University of Washington



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**For June and Mike Hill,
my parents**

About the Author



Charles W. L. Hill is the Hughes M. Blake Professor of International Business at the School of Business, University of Washington. Professor Hill received his Ph.D. in industrial organization economics in 1983 from the University of Manchester's Institute of Science and Technology (UMIST) in

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Professor Hill has published over 40 articles in peer-reviewed academic journals. He has also published two college textbooks, one on strategic management and the other on international business. Professor Hill serves on the editorial boards of several academic journals and previously served as consulting editor at the *Academy of Management Review*.

Professor Hill teaches in the MBA and executive MBA programs at the University of Washington and has received awards for teaching excellence in both programs. He has also taught on several customized executive programs.

Preface

Global Business Today is intended for the first international business course at the undergraduate level. My goals in writing this book have been to produce a work that (1) is comprehensive and up-to-date, (2) goes beyond the uncritical presentation and shallow explanation of the body of knowledge, (3) maintains a tight integrated flow between chapters, (4) focuses on 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:

- Introduce students to the process of globalization and the implications of globalization for business firms and their managers.
 - Explain how and why the world's countries differ.
 - Present a thorough review of the economies and policies of international trade and investment.
 - Examine the different strategies that businesses can adopt to compete in the global marketplace and enter specific foreign markets.
 - Explore the role played by marketing, operations, and human resource management within an international business.
- This textbook does all of these things. Comprehensiveness and relevance also require coverage of major theories. Although many international business texts do a reasonable job of reviewing long-established theories, they tend to ignore or gloss over important newer works such as:
- The new trade theory and strategic trade policy.
 - Michael Porter's theory of the competitive advantage of nations.
 - Robert Reich's work on national competitive advantage.
 - The new growth theory championed by Paul Romer and Gene Grossman.
 - 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. 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 appro-

priate points in this book. For example, in Chapter 2, "Country Differences in Political Economy," reference is made to the new growth and the work of North and others on national institutional structures and property rights. 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. In Chapter 5, "The Global Trading System," 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 global business, draws extensively on the work of Bartlett, Ghoshal, Hamel, and Prahalad.

In addition to the inclusion of leading edge theory, in light of the fast changing nature of the global economy and global trading system every effort is being made to ensure that this book is up-to-date as possible when it goes to press. A significant amount has happened in the world since the early 1990s, all of which is discussed in the text. In 1994 the Uruguay Round of GATT negotiations was successfully concluded and the World Trade Organization was established. Since then, the WTO has emerged as a major

player in the global trading system. For example, in 1997 it brokered a landmark deal to remove barriers to cross-border trade and investment in the global telecommunications industry, and it now looks like the WTO may broker the same kind of deal in the financial services industry. The European Union continues to move forward with its post 1992 agenda to achieve a closer economic and monetary union, including plans to establish a common currency by 1999. The North American Free Trade Agreement passed into law in 1994, and Chile has indicated its desire to become the next member of the free trade area. The Asian Pacific Economic Cooperation forum (APEC) has recently emerged as the kernel of a possible future Asia Pacific free trade area. The former communist states of Eastern Europe and Asia continue down the road to economic and political reform. As they do, so the euphoric mood that followed the collapse of communism in 1989 has been slowly replaced with a growing sense of realism about the hard path ahead for many of these countries. The global money market continues its meteoric growth. By 1996 over \$1.2 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 derivations through the medium of a global money market, such as Baring's Bank. The world wide web has emerged from nowhere to become the backbone of an emerging global network for electronic commerce. The world economy has become more global. Several Asian Pacific economies, including most notably China, are growing their economies at a rapid rate. New multinationals are emerging from developing nations in addition to the world's established industrial powers. And increasingly, the globalization of the world economy is impacting on a wide range of firms of all sizes, from the very large to the very small. Reflecting this rapid pace change, in this book I have tried to ensure that all material and statistics are as up to date as possible as of 1997.

BEYOND UNCRITICAL PRESENTATION AND SHALLOW EXPLANATION

Many issues in global 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, busi-

ness strategies, and so on.

Related to this, I have attempted to explain the complexities of the many theories and phenomena unique to global business so that the student might fully comprehend the statements of a theory or the reasons that 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 the world of global 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 various sections of the book relate to each other. Integration has been achieved by organizing the material so that each chapter builds on the material of the previous one in a logical fashion.

Chapter 1 is principally concerned with a discussion of the causes of consequences of the globalization of the world economy. The last section of this chapter asks "what does the shift towards a global economy mean for managers within an international business?" Much of the rest of the

book is devoted to answering this question. Chapters 2 and 3 explore how countries differ from each other with regard to their political, economic, legal, and cultural institutions. This is followed by a block of four chapters (Chapters 4 to 7) that look at the international trade and investment environment within which international businesses must operate. After this section, there are two chapters (Chapters 8 and 9) that review the international monetary system. These chapters focus on the nature of the foreign exchange market and the emerging global monetary system. The book closes with a group of five chapters (Chapters 10 to 14) that explore in detail the strategies and operating policies of international businesses. By the time the student has completed this book, they should have a good grasp of the issues that managers working within international businesses have to grapple with on a daily basis, and they should be familiar with the range of strategies and operating policies that managers can adopt in order to compete more effectively in today's rapidly emerging global economy.

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. Each chapter also contains sever-

al structural features designed to help students. A set of **objectives** at the start of the chapter provides an overview of the chapter's contents and of the concepts and skills students will be expected to learn. An end-of-chapter summary is then linked to these learning objectives, assuring continuity in the learning process. Throughout the chapter **key terms** and definitions are highlighted in the margins, followed by a list of the key terms with page references at the chapter's end. In addition to the closing case and discussion questions mentioned above, the end matter of the chapter also includes two other features which help students go beyond simple memorization of text concepts: a set of **critical thinking questions** and an **Internet Exercise**. These exercises encourage students to go on-line to learn more about topics and organizations covered in the text and can also give students a chance to develop teamwork skills when they work together on these assignments.

FOCUS ON MANAGERIAL IMPLICATIONS

Many international business textbooks fail to discuss the implications of the various topics contained within for the actual practice of international business. This does not serve the needs of business school students,

many of whom will soon be employed by business enterprises that have to compete in the global marketplace. Accordingly, the usefulness of this book's material in the practice of international business management is discussed explicitly. At the end of Chapters 2 through 9, where the focus is on the environment of international business as opposed to particular firms, there is a section entitled *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 implications of various trade theories for international business management.

In addition, each chapter begins with a 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 the problems that General Electric has had in trying to establish profitable operations in Hungary. As the case makes clear, these problems are rooted in the political economy of Hungary, and in General Electric's initial failure to fully appreciate the impact that political economy has on business operations. 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, describes how the political economy of Russia has adversely impacted on the operations

of a General Motors dealership established by United States investors in Moscow. Each closing case is followed by a list of discussion questions, which facilitates the use of these cases as a vehicle for in-class case discussion and analysis. Another tool that I have used to focus on managerial implications is the inclusion of *management focus* boxes. There is a management focus box 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 box in Chapter 2, for example, looks at Microsoft's battle against software piracy in China. This box fits in well with a section of the chapter that looks at the protection of intellectual property rights in different countries.

ACCESSIBLE AND INTERESTING

The global business arena is fascinating and exciting, and I have tried to communicate my enthusiasm for it to the student. Learning is easier, better, and more enjoyable if the subject matter is communicated in an interesting, informative, and accessible manner. I believe that with the right approach, even complex abstract ideas and theories can be made accessible and interesting to a wide range of students with dif-

fering abilities and backgrounds. The vast majority of people, I submit, are smart enough to grasp the basic principles that underlie the global trade and investment system, the global monetary system, and international business management. The task confronting a textbook author is to package complex ideas in such a way that they are accessible to as wide an audience as possible.

One technique I have used to achieve this is to weave interesting anecdotes into the narrative of the text—stories that illustrate theory. The opening cases and management focus boxes are also used to make theory discussed in the text both accessible and interesting. The opening cases and boxes are not free floating. I continually refer to and utilize opening cases and boxed material in the main body of the text.

SUPPORT MATERIALS

Instructors Manual/Test Bank: Bruce Barringer (University of Central Florida)

Study Guide: Douglas Copeland (Johnson County

Community College) Internet Exercises:

Susan Sebok (South Suburban Community College)

Entrepreneurial Profiles:

Helena Czepiec (California State Polytechnic University—Pomona)

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