



3 R D E D I T I O N

International MANAGEMENT

TEXT AND CASES

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INTERNATIONAL MANAGEMENT

Text and Cases

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Director, Prepress Purchasing: *Kimberly Meriwether David*

Compositor: *Electronic Publishing Services, Inc.*

Typeface: *10/12 Times Roman*

Printer: *R. R. Donnelley & Sons Company*

Library of Congress Cataloging-in-Publication Data

Beamish, Paul W.

International management : text and cases / Paul W. Beamish, Allen Morrison, Philip M. Rosenzweig. — 3rd ed.

p. cm.

Includes index.

ISBN 0-256-19349-5

1. International business enterprises—Management.
2. International business enterprises—Management—Case studies.
- I. Morrison, Allen J. II. Rosenzweig, Philip M., 1955- III. Title.

HD62.4.B4 1997

658.049—dc20

96-33085

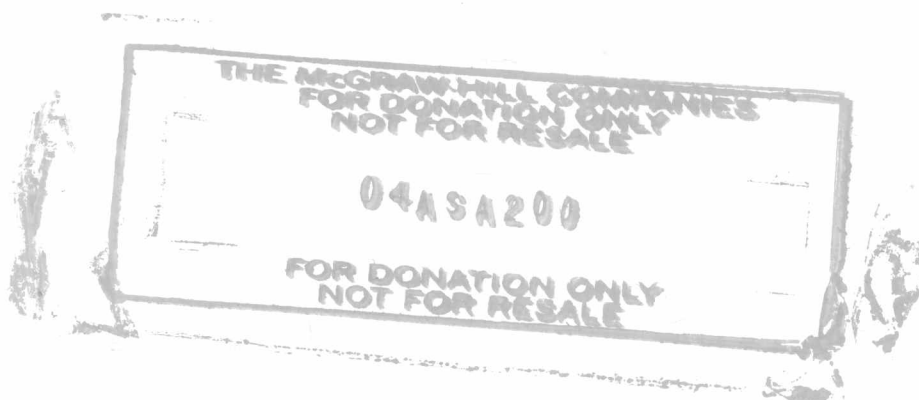
Printed in the United States of America

4 5 6 7 8 9 0 DOC 3 2 1 0 9 8 7

T H I R D E D I T I O N

INTERNATIONAL MANAGEMENT

Text and Cases



IRWIN TITLES IN INTERNATIONAL BUSINESS AND ECONOMICS

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to my father
John Richard Beamish

International Management is intended as an *international* international management book. The first two editions were used in over 200 universities and colleges in over 20 countries. The third edition, we hope, will have even wider usage. Why our optimism with this edition? In brief, it is because the book focuses on issues of international management common to businesspeople everywhere.

International Management is about how firms become and remain international in scope. It is about the experiences of firms of all sizes, from many countries, as they come to grips with an increasingly competitive global environment. It is about the practice of management when a home-market perspective is no longer enough to achieve and sustain success. Through carefully selected comprehensive case studies and integrated text material, this book bridges both the internationalization process and multinational management.

	<i>Internationalization</i>	<i>Ongoing Multinational Management</i>
<i>Small/Medium-Size Firms</i>	Smaller domestic firms moving abroad	Global niche competitors
<i>Larger MNEs</i>	Larger firms moving into more markets	Large, full-scale global competitors

The focus of many texts is on the lower right-hand cell in the above matrix—ongoing management issues in the world’s larger MNEs. This is an important area, but one that presupposes a body of knowledge that most students do not possess. The focus of the first half of the text material and cases in this book is on internationalization—developing an awareness of the impact of international forces on the firm’s future and establishing and conducting transactions with firms internationally. It is about understanding the basic modes of involvement and deciding when each is most appropriate. For each mode, both inward- and outward-looking perspectives can be considered: licensing (as licensor and licensee), trade (exporting and importing),

joint ventures (with foreign companies abroad and at home), and subsidiaries (establishing foreign affiliates and as part of a foreign-controlled affiliate). As the left-hand cells in the matrix suggest, these issues are relevant for firms of all sizes.

The first half of *International Management* helps to demystify international business so a meaningful study of multinational management can occur. In the second half of the book, focus is on how to establish a balance between the sometimes conflicting demands of the multinational headquarters, the multinational subsidiary, and the governments of all the countries in which the MNEs operate. The cases are not limited to the experiences of the world's largest MNEs—they are also about smaller companies that must be global to survive and about the management of small subsidiaries.

International Management is intended for use in international business and international management courses at the undergraduate, graduate, and executive levels. It can serve as the basis for an overarching course that deals with internationalization and multinational management, or for courses in each. The chapters of text material can (and should) be supplemented with readings of the instructor's choice. Many of the suggested supplementary readings are from *Journal of International Business Studies*, which provides blanket permission to photocopy articles for classroom use at no charge.

In response to suggestions from the users and reviewers of the second edition, this edition contains more cases (28 versus 26) and more chapters of text (12 versus 11). Eighteen of the 28 cases are new to the third edition and several others (Cameron series, Larson) have been significantly revised and updated. The new cases were selected on the basis of managerial relevance, overall fit with suggested themes, availability, and the evaluations we received from a survey of the faculty users of the earlier editions. In regard to new text material, Philip Rosenzweig has contributed a chapter on The Evolving Multinational. All other chapters have been revised and updated. All but one of the chapters were (co) authored by us or one of our current or past colleagues. This has allowed us the opportunity to shape the body of text material into an integrated whole.

The cases in *International Management* have been extensively classroom-tested by us and colleagues around the world in executive, MBA, and undergraduate programs. One measure of their quality is that a number of them have been translated—into Japanese, French, Chinese, Spanish, Russian, and Indonesian. As well, several have won awards. For example, the Russki Adventures case received the 1992 EFMD Entrepreneurship Case Competition Award in European Management.

A videotape containing material relevant to a number of the cases is available from Richard D. Irwin. Use of the video is preferable but not essential.

Acknowledgments

The individual we most wish to acknowledge is Harold Crookell, a coauthor on the first edition. He passed away suddenly in 1991 and is sorely missed by all who knew him. His spirit of intellectual curiosity and dedication to the improvement of international management permeate this volume.

The authors are deeply indebted to a number of colleagues and institutions for the intellectual and financial support we have received:

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Shigefumi Makino, Chinese University of Hong Kong
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Harvard Business School, Boston, MA, U.S.A.
The World Bank, Washington, D.C.
Pacific 2000 Program, Department of Foreign Affairs and International Trade, Canada

Institute Pengembangan Manajemen Indonesia; Jakarta (with funding provided by USAID)

The following people provided detailed reviews on the second edition:

Carol Howard, University of Hawaii at Manoa
Robert Vidal, University of Cincinnati
Leland Wooton, Southern Methodist University

Earlier evaluations had been received from:

George Gore, University of Cincinnati
Stephen Jenner, San Diego State University
Cynthia Pavett, University of San Diego
F. Derakhshan, CSUSB
David Hopkins, University of Denver
Robert Moran, American Graduate School of International Management
Ellen Cook, University of San Diego
Kenneth R. Tillery, Middle Tennessee State University

We are grateful to all of these individuals and have tried to be as responsive as possible to their suggestions.

We are also grateful to the following people for their suggestions regarding the cases:

John Banks, Jafor Chowdhury, Chris Demchak, John Dutton, Nick Fry, Ruth Gunn, Steven H. Hanks, Louis Hébert, Dale Kling, R. Kustin, Neng Liang, Behnam Nakhai, Kent Neupert, Mohammad Pourheydarian, Carol Sanchez, John Stanbury, Tom Voight, Patrick Woodcock, George Yates.

Input on the cases contained in the earlier editions had been received from:

Rafiq Ahmen, A. Ali, Joe Anderson, William J. Arthur, Edgar Barrett, Brad Brown, Marie Burkhead, Susan Crockett, L.R. Edleson, Sanjay Goel, Robert Grosse, S.D. Guzell, Mary Howes, S. Kumar Jain, Neng Liang, Clair McRostie, Alan Murray, R.F. O'Neil, Y.S. Paik, Les Palich, S. Porth, Rich Pouder, Krishnan Ramaya, Kathy Rehbein, Lawrence Rhyne, Kendall Roth, Bill Scheela, Jason Schweizer, Hendrick Seturie, Trudy Somers, William C. Sproull, Phil Van Auken, William A. Ward, Marion White, and Georgie Willcox.

Finally, we wish to express our appreciation to our colleagues at Ivey. Richard Ivey School of Business is the second-largest producer of management case studies in the world. Fifteen of the 28 cases in this edition originated at Ivey. Any ongoing undertaking of this magnitude requires a great deal of financial and intellectual support. We receive this at Ivey.

Paul W. Beamish
Allen J. Morrison
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T H I R D E D I T I O N

INTERNATIONAL MANAGEMENT

Text and Cases

PART I

TEXT

- 1 The Internationalization Process 3
- 2 The Global Business Environment 15
- 3 The World of International Trade 33
- 4 Managing Trade Operations 59
- 5 Global Sourcing Strategy: R&D, Manufacturing, and Marketing Interfaces 86
- 6 Licensing 107
- 7 The Design and Management of International Joint Ventures 114
- 8 International Strategy Formulation 133
- 9 The Impact of Globalization on the Organization of Activities 150
- 10 The Evolving Multinational 168
- 11 The Global Manager 181
- 12 Political Risk: Managing Government Intervention 199

PART II

CASES ON INTERNATIONALIZATION

- 1 Dialogue: Russia 215
- 2 Kenny Rogers Roasters in China (A) 221
- 3 Sterling Marking Products, Inc. 234
- 4 India Gold Fish Leather, Ltd. 250
- 5 Neilson International in Mexico 254
- 6 Cambridge Products, Inc. (A) 267
- 7 Russki Adventures 276

- 8 Cameron Auto Parts (A)—Revised 294
- 9 Hush Puppies Chile 304
- 10 Technophar in Viet Nam 320
- 11 Nora-Sakari: A Proposed Joint Venture in Malaysia 337
- 12 ACCOR (A) 353
- 13 Where Have You Been? An Exercise to Assess Your Exposure
to the Rest of the World's Peoples 374
- 14 Studds Nolan Joint Venture 381

PART III

CASES ON MULTINATIONAL MANAGEMENT

- 15 Matsushita Industrial de Baja California 399
- 16 P. T. Sekbang Life Insurance (Indonesia) 418
- 17 Toppan Moore 438
- 18 Colgate-Palmolive: Managing International Careers 453
- 19 Global Enterprises, Inc. 470
- 20 Nestlé Breakfast Cereal (A and B) 482
- 21 Warner-Lambert Company 492
- 22 Rhône-Poulenc (A) and (B) (Condensed) 512
- 23 Phil Johnson 529
- 24 Larson in Nigeria—1994 536
- 25 Yutaka Nakamura: A Foreigner in His Native Land 543
- 26 Scotch-Brite (3M) 550
- 27 Enron Development Corporation 561
- 28 International Sourcing in Athletic Footwear: Nike and Reebok 578

Index 595

I TEXT

1 THE INTERNATIONALIZATION PROCESS

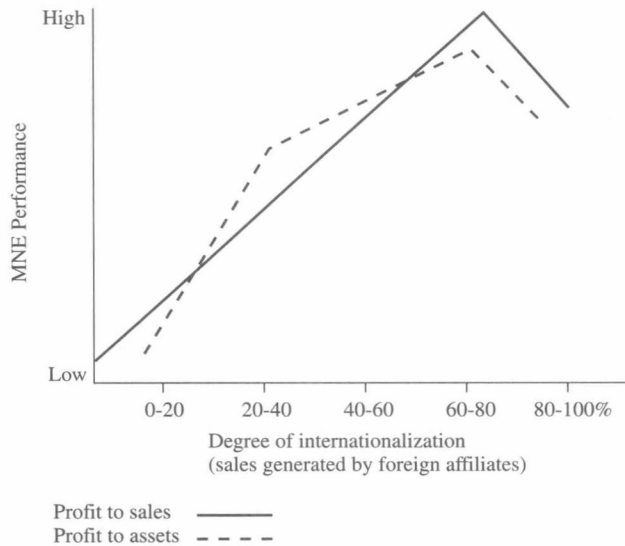
Internationalization is the process by which firms increase their awareness of the influence of international activities on their future, and establish and conduct transactions with firms from other countries. International transactions can influence a firm's future in both direct and indirect ways. Business decisions made in one country, regarding such things as foreign investments and partnership arrangements, can have significant impact on a firm in a different country—and vice versa. The impact of such decisions may not be immediately and directly evident. The development of an awareness and appreciation for the role of foreign competition becomes an integral—and sometimes overlooked—part of the internationalization process.

Firms become international in scope for a variety of reasons—some proactive and some reactive. Collectively these include a desire for continued growth, an unsolicited foreign order, domestic market saturation, the potential to exploit a new technological advantage, and so forth. The dominant reason, however, relates to performance. There is clear evidence that among the largest multinational enterprises (MNEs), a strong correlation exists between improved performance and degree of internationalization (see Exhibit 1-1).

Internationalization has both *inward-looking* and *outward-looking* dimensions. The outward-looking perspective incorporates an awareness of the nature of competition in foreign markets, and includes the following modes of activities:

- a. Exporting
- b. Acting as licensor to a foreign company
- c. Establishing joint ventures outside the home country with foreign companies
- d. Establishing or acquiring wholly owned businesses outside the home country

These outward-oriented elements are similar to those in the stages model of international expansion. The stages model is an outward-looking perspective developed to

EXHIBIT 1-1 MNE Performance and Degree of Internationalization*

* Data are based on the 100 largest U.S. MNEs and the 100 largest European MNEs.

Source: J. M. Geringer, Paul W. Beamish, and R. daCosta, "Diversification Strategy and Internationalization: Implications for MNE Performance," *Strategic Management Journal* 10 (1989), pp. 109-19.

reflect the commonly observed pattern of increased commitment to international business. In the stages model,¹ a firm might progress from (a) indirect/ad hoc exporting—perhaps from unsolicited export orders—to (b) active exporting and/or licensing to (c) active exporting, licensing, and joint equity investment in foreign manufacture to (d) full-scale multinational marketing and production.

These are, of course, broad-based stages. In practice, there are many more sub-categories. Within exporting, for example, firms may start with order-filling only. Soon after, however, they may be confronted with questions of whether to use exporting middlemen who take ownership (distributors) or those who are commissioned agents; and whether to export directly (either through the firm's own sales force, an export department, or a foreign sales company) or indirectly (through brokers or export agents).

Similarly, if an investment is to be made, there are questions regarding scale of investment (sales office, warehouse, packaging and assembly, or full-scale production), level of ownership (wholly, majority equity, equal, minority equity), and type

¹See Franklin R. Root, *Entry Strategies for International Markets* (Lexington, MA: Lexington Books, 1987), p. 19.