

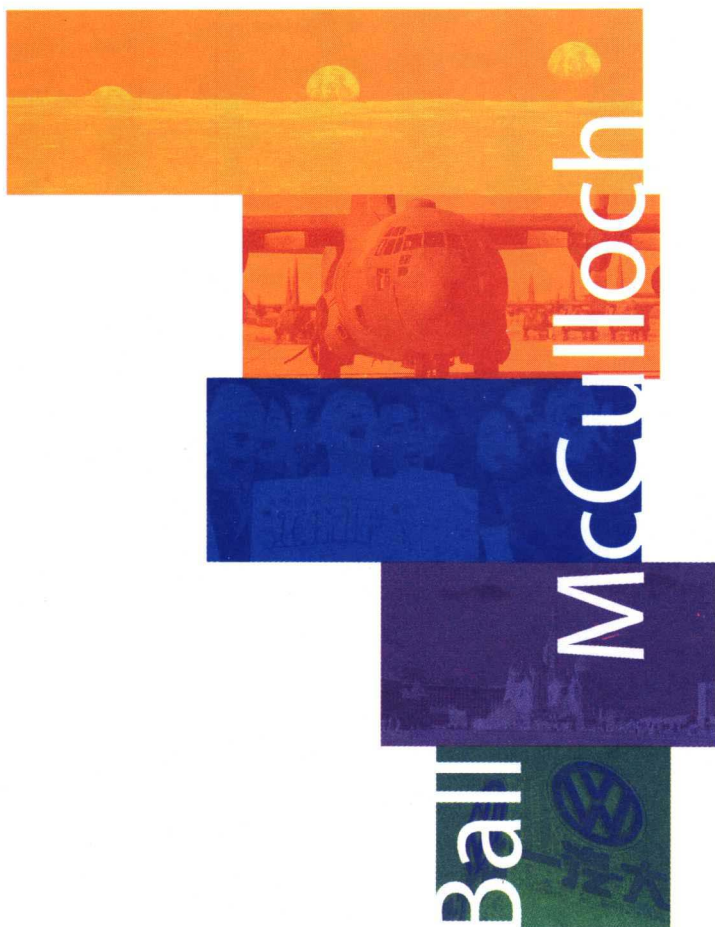
Ball

McCuiloch

International Business

The Challenge of Global Competition

Seventh Edition



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The Challenge of Global Competition

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preface

We are pleased to present the seventh edition of *International Business: The Challenge of Global Competition*. We thank all of you who have taken the time to call or write us with suggestions for improving this edition.

Purpose and Scope of This Text

The text is best suited for students in their first international business course, whether as undergraduates or in an M.B.A. curriculum. Those schools requiring a course in international business will often allow students to enroll in it before they have completed all of their basic coursework, thinking that it will give them a better opportunity to understand the worldwide applications and implications of each basic business function.

Of course, not all schools do require an international business course. Our text is still useful to them, though, as it has proven a helpful supplement for students in international finance, marketing, management, and the like. The book is often purchased by working executives as a reference, and it has been widely featured in seminars and training programs as a key guide to international business practices.

International Business 7/e is organized into four sections in order to maximize its usefulness to instructors and students alike. The opening section defines the nature of international business and of the three environments in which it is conducted. Section Two is devoted to the growing importance of international organizations and the international monetary system, and how they affect business. Section Three concentrates on the uncontrollable forces at work in foreign environments, and discusses their inevitable impact on business practices. The final section is devoted to management, as we focus on how managers deal with all of the forces which affect international business.

Suggestions for improving the text came from a wide array of people: professors who submitted chapter-by-chapter reviews; students and instructors who wrote and called to offer ideas; businesspeople who bought the book, or received it at a conference; and our own undergraduate and graduate students.

Changes to the Seventh Edition

The International Business environment today is very different than it was at the time when this book was first published. With every edition, we have incorporated numerous suggestions from a wide array of people: professors who submitted chapter-by-chapter reviews; students and instructors who wrote and called to offer ideas; businesspeople who bought the book, or received it at a conference; and our own

undergraduate and graduate students. *International Business 7/e* continues to offer you a superior text in terms of quality, currency, and the infusion of "hot" topics relevant to today's business student.

Having said that, we have retained the elements that students and instructors have come to expect from this book. Each chapter opens with a quotation related to the issues covered. There are margin definitions to reinforce the language of international business, while examples further illustrate the concepts. The Worldview boxes provide readings to accompany the chapter material, showing how specific principles are applied to business practice, and mini-cases are once again featured at the back of the book.

New Features and Areas of Substantive Change

International Business, as in past editions, leads the way in bringing innovative pedagogy and features to the 7th edition. In the past, we were the first to introduce the International Business Model, we were the first to offer a 4-color international business textbook, and with this new edition we offer you many new features.

- 1.) **The Internet Appendix:** The internet makes researching international business topics a world easier. There are a vast number of resources available; however many students don't know where and how to start. The Internet Appendix introduces students to Internet basics, providing terminology and tips for using the web. Also, students will find an **International Business Internet Directory**. This includes an extensive compilation of Internet addresses and resources. All of the addresses will be linked on the Ball & McCulloch web site, and updated periodically. <http://www.mhhe.com/ball/>
- 2.) **Using the Internet Exercises:** Technology has become an important part of transitioning into the new millennium. The new edition of *International Business* takes you there with Internet Exercises at the end of every chapter.
- 3.) **Relevance for Businesspeople:** This feature links the concepts introduced in the text to real-world experiences by international businesspeople. Through these examples, students learn "why" these concepts are relevant and important.
- 4.) **Maps:** We have updated the handy map insert, as well as the updating and introducing new maps into the text. Our maps provide the most "up-to-date" reflection of the world today.
- 5.) **Design:** "It's a whole new Ball & McCulloch". With the 7th edition we have given you the quality and currency represented in previous editions, as well as an engaging new design. One new feature is that URL's have been provided for many companies mentioned in the book. Ball & McCulloch's new look reflects the dynamic, changing world of international business.
- 6.) **Student Exam Prep Disk:** We have heard from several instructors that students are clamoring for more study tools. We are packaging an exam prep disk in the front of every *International Business 7/e* text. This disk provides approximately 15-20 true/false and multiple choice questions per chapter.
- 7.) **Internet Web Site:** A great resource for students and instructor's alike, the *International Business* web site provides Internet exercises, updated URL's, *International Business* links, and much, much more. Please visit us at: <http://www.mhhe.com/ball/>

In addition, we have updated the material in each chapter to reflect recent world events and new **International Business** issues.

Chapter 1: You will find a new model with overlays to illustrate three kinds of international business strategies on a continuum from market extension by exporting to becoming a multinational company and then a global corporation. We also include a discussion of 5 drivers that lead international firms to the globalization of their operations. A new term, *multidomestic company*, is introduced.

- Description of how the Internet and network computing enable small firms to compete globally.

Chapter 2: We discuss the fact that globalization is not an all or nothing situation. There are at least seven dimensions along which management can globalize and the amount of globalization will vary their analyses to assist readers in their interpretation, a necessary business skill.

- Discussion of firms dispersing production activities to locations close to available resources.

Chapter 3: This chapter contains a discussion of Porter's Competitive Advantage of Nations. There is also a discussion of the various classifications systems of countries employed by international agencies.

- The importance of the Uruguay Round in lowering import duties and non-tariff barriers.

Chapter 4 has been extensively updated. Major changes in order of their appearance include:

- The International Finance Corporation is now the world's largest source of equity and loan financing for private enterprises in emerging economies.
- The World Bank and other international organizations are excellent job sources.
- Pressures are intensifying to enlarge the Security Council of the United Nations.
- Beginning in 1997 and continuing through 1998, several Asian countries suffered severe drops in currency values, falling stock and property markets, and massive bad loans held by their banks. The International Monetary Fund and several developed countries tried to assist them.
- The new World Trade Organization began its efforts to enlarge free trade and investment.
- The European Union member countries were wrestling with efforts to qualify for participation in the new economic and monetary union with a new currency, the euro, and a new European Central Bank.
- The United States government, after succeeding in getting congressional approval of the North American Free Trade Agreements (NAFTA), lost its leadership position in the world free trade movement. Its NAFTA partners, Canada and Mexico, and other free trade organizations, notably Mercosur, moved on without the U.S.

Chapter 5 has been brought up to date and expanded. Major changes, in order of their appearance include:

- Changes are noted in the gold market and in uses for gold.
- The 1997 Asian financial crises had important effects on the relative values of their currencies in terms of the U.S. dollar, and other currency value fluctuations are dealt with.
- A new Big Mac Currencies hamburger standard is presented to evaluate whether actual currency exchange rates correctly reflect purchasing power parities.
- Changes in the world's foreign exchange markets are discussed.
- The IMF deputy managing director speaks of uses for the SDR and whether more should be issued for distribution to countries which have not receive them in past distributions.
- The EU is attempting to move from the ECU to the euro and the European Central Bank. Comparisons are made between the EU and the U.S.

Chapter 6 changes and updates, in order of their appearance include:

- How McDonald's (Japan) used forward currency markets to lower its costs of imported ingredients.
- New figures on real and nominal interest rates in several countries are given.
- There is a new figure comparing 1992 with latest interest rates in 25 countries.
- A new misery index which adds inflation and unemployment rates in a number of countries is shown.

- There is a table showing secondary market transactions in debt instruments of developing countries and countries in transition.
- Recently the IMF, World Bank, and the Paris Club have taken steps to ease the debt burdens of heavily-indebted poor countries.
- Differences are explained between the debts of LDCs and the net negative investment position of the U.S.

Chapter 7: A new table ranks the 10 largest and 10 smallest economies according to private consumption expenditures using the purchasing power parity (PPP) equivalents. The table also compared to GNP/capita based on PPP equivalents.

- Increased discussion of variables such as consumer expenditures based on Purchasing Power Parity.

Chapter 8: To comply with requests, we now have a map showing the Basque country and Catalonia on a topographic map. There is also a map showing landlocked Bolivia's new "export corridor." We have included new information on conventional and unconventional sources of petroleum as well as a renewable energy.

Chapter 9 cites P&G as an example of a firm that had disastrous results with its promotional campaigns in Japan until its management acquired some cultural knowledge of the country. Now, this knowledge has helped the firm to gain an advantage over its Japanese competitors. The concepts of strategic technology leveraging and information on the immigration of engineers and scientists have been introduced for the first time.

- Added discussion of the Information Technology Era.

Chapter 10 changes and updates, in order of their appearance include:

- In describing political developments, the media makes increasing use of the terms "left," "center," and "right." It is important for business management to understand the ramifications of the differences.
- Countries all over the world are putting their airports and airport terminal operations up for privatization. The British BAA and the Dutch Schiphol are leaders in the field.
- Governments, such as that of Mozambique bring in foreign, private companies to run activities, such as the customs service.
- The solvency and stability of banking sectors are improved by privatization of industrial and commercial companies.
- Even communist countries such as the PRC allow some state-run enterprises to diversify ownership although they don't call it "privatization."
- In most cases, buyers of privatized assets do well financially.
- Political pressures can result in export business. An example is given of PRC pressure on Kuwait.
- Peru executed what was called "... among the great counter-terrorist operations in history," in its rescue of guests in the Japanese ambassador's residence in Lima. A terrorist group had taken them hostage.
- Training is available in anti-terrorist detection and evasive driving. The telephone number of an American training organization is given.
- Vehicles can be armored or "hardened" for protection against bullets or bombs. The name of an American company in the business is given.
- A country's political stability is very important to banks and businesses deciding whether to lend or invest there. The latest developments in Bolivia's move to stability are given.
- Trade missions sponsored by the U.S. Commerce Department can pay off in exports by American companies.
- Traditional hostilities, such as that between Arab countries and Israel affect business. An update on that situation is presented.
- There is a list of country risk assessment information sources.

Chapter 11 changes and updates, in order of their appearance include:

- There are updates on the capital gains tax rates.
- In 1997, President Clinton and Congress agreed on amendments to the internal revenue code making the most complicated tax laws in the world more complicated.
- There is new material about the Italian approaches to tax collection and payment.
- Electronic commerce combined with the growing ease with which firms and some people can shift their operations and residence from one country to another will change who and what is taxed and how.
- Non-Americans complain about the extraterritorial application of American antitrust laws. In 1997, when Boeing wanted EU Commission okay for its McDonnell Douglas acquisition, it was the EU that applied its antitrust laws in that fashion.
- In 1997, a U.S. federal appeals court ruled that *criminal* antitrust laws could be applied extraterritorially. Prior to that, only *civil* cases were so treated.
- The U.S. Customs Service and Department of Justice think a duck is the same as a bedspread.
- U.S. punitive damage awards in pharmaceutical and medical product liability cases is causing American firms to stop research and foreign firms to withhold those products from the American market.
- Trade, as a proportion of global income and as a percentage of U.S. gross domestic product, has increased dramatically.
- Export-related jobs in the U.S. are growing and they pay 13 percent more than the national average.
- There is new material about industrial espionage.
- Intellectual property rip offs are growing.
- There are new numbers about tax treatment of expatriate Americans.
- The Lockheed Corporation's bribes to get export orders caused the enactment of the Foreign Corrupt Practices Act in the 1970s. Then in 1995, they got caught again and are finally taking steps to avoid a third hit.
- Some other countries and organizations are finally moving toward discouraging bribes to get export orders.
- There is new information about the Antiboycott law.
- Arab-Israeli peace negotiations are updated.
- The U.S. government is expanding its assistance for Americans doing international business.

Chapter 12 changes and updates, in order of their appearance include:

- New information about migrant workers and refugees.
- Israel is now a guest worker host country.
- Immigrants can be a burden on the host country, but there are examples in which they can benefit it.
- There are new numbers about relative labor productivity from country to country.
- Savings rate figures are updated.
- The material is expanded about caste in India and the similar situation in Japan.
- There is new material about women in business.
- Figures about working days lost due to labor strikes are updated.
- American labor unions are becoming more aggressive politically.
- There are new numbers about labor union membership as a percentage of the work force.
- A new IMF study has been added about the effects of harmonizing labor standards on wages, income, and trade.
- Works councils will now be required in the EU, but codetermination has not spread from Germany.

- There are new comparative labor costs numbers.
- Added is discussion about unemployment causes with comparisons of different countries' policies and unemployment rates.

Chapter 13: The Competitiveness Policy Council is described for the first time in Chapter 13. The results of the 1996 Competitiveness Index are presented with some remarkable conclusions. We describe the results of a McKinsey study that compares the efficiency of France, Germany, Japan, and the telecommunications, retailing, and software industries.

- A discussion of Europe's technological lag has been included.

Chapter 14: Readers are told in Chapter 14 where on the Internet they can find Foreign Trade Reports that were formerly available only in hard copy. New information on international trade fairs is presented. Small Business in the Global Economy contains numerous Web sites where market research information can be found.

Chapter 15: A description of the globalization of advertising and agencies is presented for the first time. New information on the trend toward using more global brands and private brands is included. A section in the chapter compares couponing in the United States and Europe.

Chapter 16: Information on using the Internet to contact Commerce Trade Information Center has been added to this edition and for the first time, we describe the new Automated Export System and the Automated Commercial System.

- The concept of advertising organizations has been added.

Chapter 17 changes and updates, in order of their appearance include:

- Differences between American and European attitudes and practices about vacations.
- New information about child labor.
- Job leads.
- Suggestions about becoming and continuing to be a successful expatriate executive.
- Information for female international managers.
- No-nos in résumé writing.
- Difficulties for foreign executives in the PRC.
- New comparative living expense numbers.
- Changes in Japanese executive compensation practices.
- Country comparisons of CEO compensation.
- New business environment rankings in 30 countries.
- New comparative office rent amounts in 14 cities.
- New partying and hangover costs in 19 cities.
- Dealing with trailing spouses of expatriate executives.

Chapter 18 changes and updates, in order of their appearance include:

- New discussion of probable effects of the euro on currency trading.
- Elements and developments to observe in forecasting relative currency strengths and weaknesses.
- New international capital raising swap examples.
- Information about derivatives and how to use them.
- Financial executives' networking; why and how to do it.
- Comparative figures for 10 derivatives markets.

Chapter 19: Because of its growing importance, we have given greater emphasis to global sourcing in the seventh edition. A new Worldview described Ford's virtual car, virtual assembly line, and virtual prototype.

Chapter 20: Responding to your suggestions, we combined strategic planning, organizational design, and control in one chapter. We included the much-discussed topic, "Is Strategic Planning Dead"? The model for the global strategy planning process has been modified to depict better the less-structured process that more firms are following.

The Ball & McCulloch International Business Package

For Instructors:

- 1.) **Instructor's Manual:** This manual, written by the authors, will help you save invaluable time preparing for the course by providing suggestions for heightening your student's interest in the material. Each chapter-by-chapter discussion presents concept previews, an overview of the chapter, suggestions and comments, student involvement exercises, suggestions for guest lecturers, video case suggestions, and a detailed chapter outline. In addition, the Instructor's Manual contains numerous transparency masters of the images and maps within the text.
- 2.) **Testbank:** The testbank is available in a number of formats: (1) a printed manual, (2) a computerized testing software, and (3) Teletest, a service that will create a customized test for you.
- 3.) **PowerPoint Slides:** A PowerPoint slide presentation accompanies each chapter of the text. You can either use PowerPoint technology for classroom presentation, or you can choose to print the slides to develop a custom acetate program.
- 4.) **Videos:** The adopters of the 7th edition will receive five new videos, each with an accompanying video case. The video cases notes are found in the instructor's manual.

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- 1.) **Student Examination Preparation Disk:** Now students have an additional study tool to assist them in mastering *International Business* concepts. The Exam Prep Disk contains 15–20 true/false and multiple choice questions per chapter tied to key concepts. A disk is packaged free with every text.

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- 1.) **Business Week Edition:** Keep your classroom up-to-date with the latest international business news. Now you can take advantage of a 16-week subscription to the world's leading business magazine for only \$9.95. Instructors, you will receive a free semester subscription and a weekly newsletter summarizing the articles. The newsletter will also include application questions for incorporating current events into your curriculum.
- 2.) **Internet Web Site:** A great resource for students and instructor's alike, the *International Business* web site provides Internet exercises, updated URL's, *International Business* links, and much, much more. Please visit us at: <http://www.mhhe.com/ball/>

We want to acknowledge and thank Dr. Paul Frantz of California State University, Long Beach for many helpful suggestions toward the improvement of the current edition of this book. Among other contributions, he developed the internet research questions for several chapters and suggested answers to them for the instructor's manual.

In addition, we would like to thank Dr. Marty Hanson at Black Hawk Community College in Moline, Illinois for authoring the Student Examination Preparation Disk. This new disk will add immeasurable assistance to users of the *International Business* 7/e. We appreciate your dedication and hard work in producing such a quality product in a quick timeframe.

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We continue to invite your suggestions for making this a more useful text and thank you for your interest and input.

Donald A. Ball
Wendell H. McCulloch, Jr.

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