

INTERNATIONAL BUSINESS
AND MULTINATIONAL
ENTERPRISES

Third edition

Robock and Simmonds

International business and multinational enterprises

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Preface

One of the most dramatic and significant world trends of the last three decades has been the rapid, sustained growth of international business. In its traditional form of international trade as well as its newer form of multinational business operations, international business has become massive in scale and has come to exercise a major influence over political, economic, and social development throughout the world.

This growth in business activity across national boundaries has brought with it many changes. The rise of the multinational enterprise has confronted nation states with local business units that are closely linked with operations lying outside the nations' local jurisdiction. As a result nation-states have had to grapple with a wide range of new policy issues that are not satisfactorily covered by the traditional conceptual framework for thinking about the protection of national interests—a framework primarily focused on controlling transfers of goods and money as they cross national borders. The business executive has also been confronted with new management problems. Methods have had to be developed for operating simultaneously in many different and differently changing environments, for dealing with new elements of risk and conflict, and for assessing the impact of the firm on social and economic change. The management task has expanded and changed considerably from that faced within purely domestic operations.

It was not until the early 1960s that awareness of the problems that arise when business operations extend across national boundaries began to have any significant impact on business education. By this time there was a growing realization that existing theories, generalizations, and

techniques of business management that had been built up largely from business experience within the United States were neither general nor universal. More explicit attention to the international dimension of business began to appear in business curricula.

Originally, the international business orientation frequently consisted only of selected tools and materials culled from the fields of international trade and international economics—a reflection of the newness of the field and the limited development of concepts and research. There tended to be a bias toward national issues and little direct attempt to develop the special skills demanded by the realities of multinational operations. Some courses simply joined together international aspects of conventional business courses, particularly finance and marketing, with little attempt to develop skills in assessing environmental differences.

With two decades of experimentation and research now behind it, however, international business has evolved into a field of study and research with its own identity. Its central focus is the set of management problems stemming from the movement of goods, human resources, technology, finance, or ownership across national boundaries. As befits a course for business managers, the field has a managerial orientation, and assessment of national issues is placed in this perspective. Furthermore, the field of international business has moved well beyond an applied international economics orientation to draw heavily upon other related fields such as politics, sociology, anthropology, and law, where materials from these disciplines are relevant to the tasks of the international manager. It is now widely accepted that international business courses can provide a basic frame of reference and develop the international dimension of business teaching in a way that other subject areas, with their own focus and conceptual approaches, are unlikely to achieve.

This book grew out of the authors' experience of teaching international business courses in graduate business schools and executive programs around the world since the early 1960s. It is a general introductory text designed for relatively advanced students, with a direct focus on the development of management skills in handling the problems of multinational business. Extensive footnotes have been included as an aid to more advanced study of areas in which students may have a special interest. While the book is primarily designed for readers with a business orientation, it has also proved useful for government decision makers who must take into account the present and future behavior patterns of international firms in designing national policies, and for students of political science.

The text is divided into six parts. Part One introduces the new field of international business and examines the forces underlying its expansion and the patterns that are emerging from this growth. Part Two presents the monetary, trade, and regulatory frameworks within which interna-

tional business transactions take place. Part Three is concerned with the goals of nation-states with respect to international business, and the controls that nations adopt to achieve their goals. Part Four examines the construction of global business strategies including the assessment of demand and risks in the environment within which the international firm operates. It also presents and analyzes the alternative organizational structures available to firms for building and implementing global strategies. Part Five covers the operational management of the multinational firm, paying particular attention to the issues that are specific to international activity. Part Six looks ahead to the future of international business.

Experience in teaching has shown that a course covering topics in the order in which they are presented in this text produces a clear, interesting progression. It begins with an introduction to the concepts and terminology of international transactions, proceeds to the wider issues of the firm's relationship with different national interests, and then moves on to the strategic and operational decisions of individual multinationals. Whatever course design is adopted, however, students clearly appreciate a continual examination of the relevance of the material to the management task. Discussion exercises and questions designed with this in mind have been included at the end of each chapter. Also available at the end of the text is a series of problems and cases that can be drawn upon to support the course design adopted by the instructor. All of these materials are aimed at strengthening practical analysis and decision-making skills within international business situations.

Many professional colleagues and practitioners have given the authors invaluable assistance in the ongoing task of preparing the editions of the book. Particularly helpful in the preparation of this Third Edition have been Michel Amsalem, Warren J. Bilkey, Ian Giddy, Nathaniel Leff, David A. Ricks, Alan Rugman, William Stoeber, J. Frederick Truitt, and Stephen Young.

In previous editions we acknowledged the support of the postal services on both sides of the Atlantic and wondered why they both made losses. Perhaps this time we should add a word of acknowledgment to the airlines that have made it possible for us to operate internationally, as international business professors should. We are sorry that the more we travel, the more they lose.

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PART ONE

The nature and scope of international business

Chapter 1

The field of international business

A definition of international business

International business, foreign operations, and comparative business

The scope of international business activities

The multinational corporation

What is different about international business?

International business training

Exercises and discussion questions

A DEFINITION OF INTERNATIONAL BUSINESS

International business as a field of management training deals with business activities that cross national boundaries, whether they be movements of goods, services, capital, or personnel; transfers of technology, information, or data; or even the supervision of employees. International business has emerged as a separate branch of management training because the growing scale and complexity of business transactions across national boundaries gives rise to new and unique problems of management and governmental policy which have received inadequate attention in traditional areas of business and economics.

Business transactions between different sovereign political units are not new phenomena on the world economic scene. Some business firms

have had foreign direct investments and foreign operations for many years; predominantly in (but not limited to) companies in the fields of mining, petroleum, and agriculture.¹ Foreign trade, moreover, has a venerable history dating back to the emergence of the nation-state. But since the end of World War II a dramatic change has occurred in the patterns of international business activities. Thousands of business firms in many nations have developed into multinational enterprises with ownership control or other links that cross national boundaries. These firms take a global view of all aspects of business, from markets to resources, and they integrate markets and production on a world scale. Traditional international trade in the form of transactions between independent firms in different nations has continued to grow. But the *relative* importance of trade in the total picture has declined as other forms of cross-border business transactions have expanded more rapidly.

The international business field is concerned with the issues facing international companies and governments in dealing with all types of cross-border business transactions. The field encompasses international transactions in commodities, international transfers of intangibles such as technology, and the performance of international services such as transportation. It gives special attention to the multinational enterprise—an enterprise based in one country and operating in one or more other countries—and the full range of methods open to such enterprises for doing business internationally.²

International business, foreign operations, and comparative business

To clarify the scope of the authors' approach to international business, we should differentiate between international business, foreign business, and comparative business. The last two concepts are sometimes used as synonyms for international business. Foreign business refers to domestic operations within a foreign country. Comparative business focuses on similarities and differences among countries and business systems. The great merit of comparative studies in business, as well as in other fields such as politics, sociology, and economics, is the new perspective

¹ Mira Wilkins, *The Emergence of Multinational Enterprise: American Business Abroad from the Colonial Era to 1914* (Cambridge, Mass.: Harvard University Press, 1970). This study shows that U.S. direct foreign investment prior to 1914 was not limited to extractive industries and utilities but also included "a surprising number of . . . U.S. headquartered multinational manufacturing companies" (p. ix).

² David E. Lilienthal, "The Multinational Corporation," in *Management and Corporations 1985*, ed. M. H. Anshen and G. L. Bach (New York: McGraw-Hill, 1960). The term *multinational firm* was probably first used by David E. Lilienthal in a paper delivered at Carnegie Institute of Technology in April 1960.