



# **MULTINATIONAL BUSINESS FINANCE**

**by David K. Eiteman and  
Arthur I. Stonehill**

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# MULTINATIONAL BUSINESS FINANCE

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# MULTINATIONAL BUSINESS FINANCE

## PREFACE

The world has entered an unprecedented era of unified global economic activity, with worldwide financing, production, and distribution dominated by a new and innovative form of business organization, the multinational corporation. Development of the multinational corporation is perhaps the most important business event of the past two decades, and continued evolution of this form of organization for expanded world economic affairs will very likely be the major business thrust of the remainder of this century.

*Multinational Business Finance* is concerned with developing financial managerial knowledge and skills for those persons who are or who will be charged with responsibility for making financial decisions within such global enterprises.

An underlying assumption of the book is that the finance function in a multinational enterprise differs from its counterpart in a uninationa1 enterprise, perhaps to an even greater extent than do such other business functions as the management of marketing, production, research and development, and labor relations. These other functions must inevitably be carried out in a manner which gives dominant consideration to host-country customs and traditions.

Financial management is different. Many of the most important decisions within the financial management of a multinational enterprise have no domestic counterpart whatsoever, and arise solely because funds are in the process of being transferred over national borders and from one economy and currency system to another. There is no counterpart in the domestic business of any country for payment of dividends in another currency, for the need to shelter normal working capital from the ravages of devaluation, or for many of the considerations which impinge upon choices between owning versus licensing. The fact of being multinational creates new decision areas and opens the imagination to new techniques that did not exist before.

The force of these new possibilities is very powerful, both for corporate activity and for the economies of the many countries of the world. The financial manager who must orchestrate and conduct the entire panorama of financial flows in a worldwide venture is embarking on a new sphere of managerial activity. It is the hope of the authors that this book will help bring some order and structure to this new field of managing financial decisions within multinational business enterprises.

*Multinational Business Finance* is intended for college and university courses in financial management or international business at both the graduate and junior-senior level. It would also be appropriate for use in management-development programs or institutes in the U.S. and abroad. A level of background knowledge or experience equivalent to a basic business finance course, using a text such as J. Fred Weston and Eugene F. Brigham, *Essentials of Managerial Finance*, second edition (New York: Holt, Rinehart, and Winston, 1971) or James C. Van Horne, *Fundamentals of Financial Management* (Englewood Cliffs, N.J.: Prentice-Hall, 1971) is presumed. A previous course in international economics would be desirable, but the text has been designed to cover sufficient economic material so that separate background is not essential. The book might in fact be used as a supplement to courses in international economics or international finance as they are currently taught in departments of economics.

A course designed around *Multinational Business Finance* might be oriented toward further consideration of the conceptual problems of multinational business, or it might be directed toward increased professional expertise for those who are or who will become multinational financial executives. For this reason, a carefully selected list of cases, complete with short summaries, is included as an appendix. These cases are listed by chapter groupings to which they apply, and can be ordered from the Intercollegiate Case Clearinghouse, Soldiers Field Post Office, Boston, Massachusetts 02163.

Each chapter is followed by a list of selected readings. For a more complete set of readings, see: Gunter Dufey, *Financial Management in the International Corporation: An Annotated Bibliography* (Ann Arbor, Mich.: Graduate School of Business Administration, University of Michigan, 1971). For a continuing review of all international business literature, see John and Ruth Fayerweather, editors, *The International Executive*, published quarterly at 64 Ferndale Drive, Hastings-on-Hudson, New York 10706, U.S.A.

The authors are grateful to the many persons who contributed suggestions for improvement of the original manuscript. Professor Gunter Dufey of the University of Michigan provided very valuable comments on almost every section of the manuscript. Valuable ideas were also supplied by Professor Richard D. Robinson of M.I.T., Dr. Joseph O. Vogel of the Ford Motor Company, Professor J. Frederick Truitt of the University of Washington, Professor Lee C. Nehrt of Indiana University, and Professor Bart W. Sorge of the University of Southern California. Business executives, both American and foreign, who visited the campuses of the University of California, Los Angeles, and Oregon State University, contributed their share of ideas. The authors' opportunities to teach, do research, and consult with business executives in Norway, Argentina, and Peru provided many stimulating thoughts which inevitably insinuated themselves into the fabric of the book. As in all

such ventures, however, the final results remain the responsibility of the authors.

Finally we would like to thank our wives, Nobuko and Kari, for their patience and encouragement through the three years it took to write this book.

*Pacific Palisades, California*  
*Corvallis, Oregon*  
*August 1972*

D.K.E.  
A.I.S.

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PART 1

## INTRODUCTION

