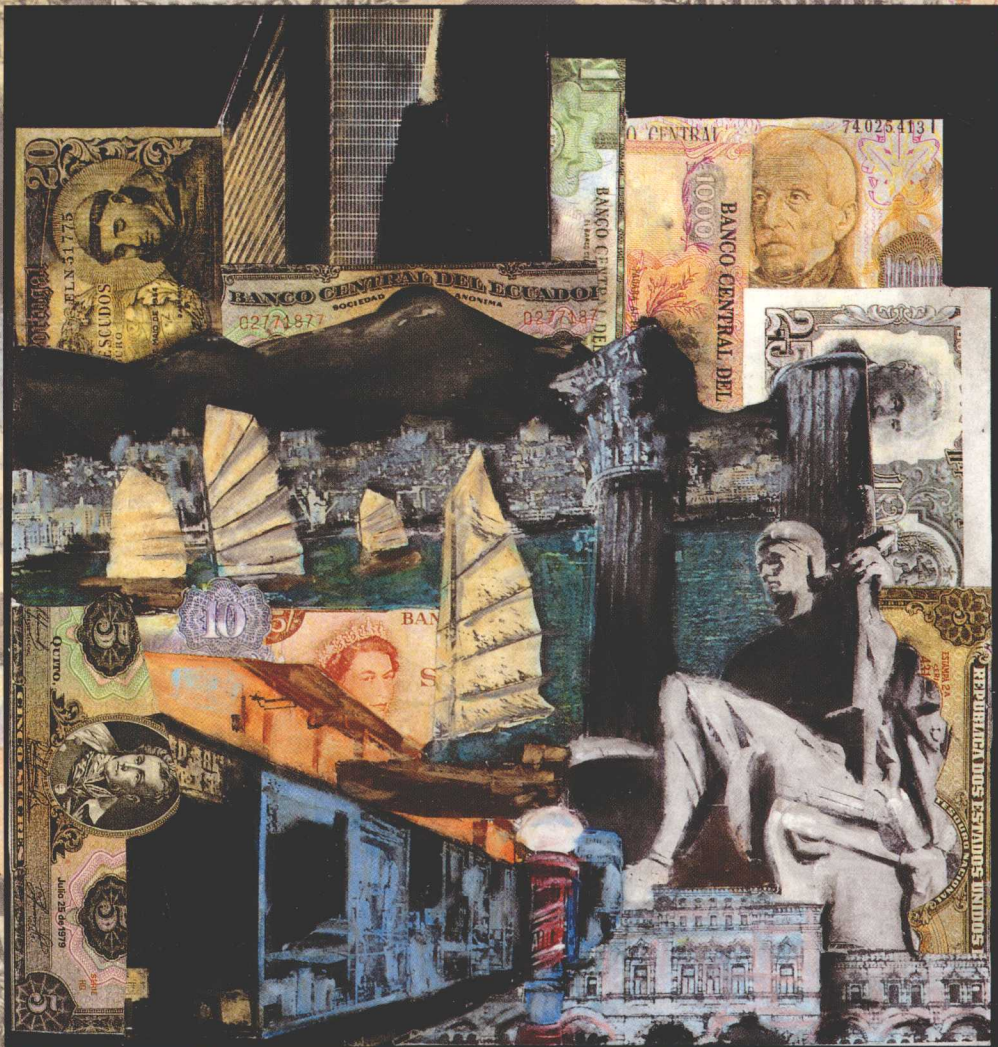


# THE INTERNATIONAL BUSINESS ENVIRONMENT

## TEXT AND CASES



Anant K. Sundaram / J. Stewart Black



# THE INTERNATIONAL BUSINESS ENVIRONMENT

Text and Cases

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# **THE INTERNATIONAL BUSINESS ENVIRONMENT**

# Preface

## The Rationale for the Book

In the past couple of decades, the phenomenon of globalization has progressed from buzzword to reality. Indeed, chances are low that a typical MBA today will work for an organization that is *not* a multinational enterprise (MNE); the notion of a purely domestic firm is fiction.

At the same time, there has been a debate in business schools about whether their curricula should have “separate international courses” or whether international material should be integrated into the “regular,” functional area courses. Many business schools appear to view these approaches as being substitutive rather than complementary. The essence of this debate can be captured in one question: Are differences in business across borders those of degree or those of kind? The short answer is, both. There are many managerial issues confronting MNEs that are qualitatively no different from those that confront a non-MNE, and these issues are probably best dealt with in the regular, functional area courses. However, there are also managerial issues that are unique to MNEs and these, we believe, are best addressed in a separate course.

This book is based on the premise that there are two distinguishing aspects of business in today’s global environment that present differences of kind, and therefore, will not fit as easily into the traditional functional areas of a business curriculum: They are multiple sources of external authority (“MA”), and multiple denominations of value (“MV”). These two aspects of the MNE environment cut across managerial issues in all functional areas, and have implications for internal organization across a broad range of firm attributes.

The emphasis of the book is to give students the tools to effectively and systematically analyze the various facets of the international business environment, and how they affect internal organization. It provides students with tools and perspectives to analyze the economic structure and stability of the countries and of the linkages between them; their conflicts resulting from issues over free trade and protectionism; their political and legal institutions, processes, and risks; their cultural norms, values, ethical systems, and customs; their competitive vulnerabilities and opportunities arising from the impact of exchange rates and international capital markets; and so on. As this list suggests, the material in this book requires the integration of theories and models from a wide variety of liberal arts disciplines, including political science, sociology, economics, finance, law, psychology, and religion. In the process, this book assumes that business schools must treat the two approaches—international issues within the functional disciplines and a separate international course—as being complements rather than substitutes.

### What Differentiates This Book?

There are a number of excellent texts on international business in the marketplace, and one might legitimately ask, what makes this book different? We believe that the following attributes differentiate this book from its competitors:

1) *Conceptual Underpinnings*: This book “bites the bullet” on the question of what is unique about MNEs, and develops the argument (see Chapter 1) that the distinguishing features of this organizational form result from the *environment* in which they operate. This, in turn, leads us to a discussion of the two generic attributes of the environment—MA and MV—that lead to specific types of managerial challenges. The entire book is developed around the cohesive theme of systematically analyzing the different parts of MA and MV, and how the various aspects of this environment affect MNEs’ internal organization.

2) *Integration*: The material in this book is integrative, in the sense that it combines insights from a number of different academic disciplines and functional areas. It shies away from unidimensional (e.g., purely economic or purely social) views of organizational imperatives, and in the process, motivates students to appreciate the challenges of managing a complex organizational form in an equally complex and rapidly changing environment.

3) *Managerial Relevance/General Management Focus*: The material in this book is based on the implicit assumption that ideas covered in an MBA curriculum must ultimately be managerially relevant. In other words, the presumption is that, from the standpoint of MBAs, all theory must ultimately lead to better managerial practice. In the process, the tone and content of the book adopts the viewpoint of the general manager of an MNE—that is, someone who is responsible for formulating and implementing global strategy. The cases also adopt this perspective.

4) *Coverage of Issues*: A number of topics are covered in the setting of this single textbook at a level of depth that instructors and students would typically have to search out from a number of different texts. Examples include treatment of economic exposure to exchange rates (Chapter 5), international law (Chapter 8), MNE social responsibility (Chapter 9), and economic cost benefit analysis (Chapter 12). Moreover, there are accompanying full-length cases dealing with each of these issues.

5) *Conciseness*: The chapters are written in the manner of a “scholarly reading” that an instructor might typically assign with a case. In other words, they are designed to be concise summaries of the theoretical ideas that are necessary for cogent student analysis of cases. Unlike typical textbooks, the chapters are not designed to “give answers” to students, but rather, they are designed to provide them with sufficiently detailed information to frame their case analyses in a systematic way. In the process, our objective is to have the students go considerably beyond attempting programmed or “textbook” solutions to complex analysis.

6) *Classroom Tested, Full-Length, Current Cases:* All the cases have been successfully tested in the classroom. Moreover, they are full-length, rather than “boxed” summaries based on news articles. The cases attempt to convey the true complexity of general management decisions in the MNE context. Moreover, every case is specifically tied to a chapter, and in the process, instructors can assign them together as a cohesive, and often standalone, unit. The cases are current—with one exception, every one is from the decade of the 1980s onward, and many are from the 1990s. The cases also cover high-profile current events such as the Boeing-Airbus and semiconductor trade disputes, the breakup of the former Soviet Union, the corruption scandals in Italy, the opening of China, the ABB merger, and so forth.

7) *Supplements:* An instructor’s manual containing solutions to the problem sets and teaching notes for the cases provides a clear teaching plan that we have successfully used with MBA students.

### **Suggestions for Classroom Use**

We have effectively used the contents of the book in a 22- to 24-session core (required) course on the international business environment. The book can also be used in a second-year elective course that deals with the environment of MNEs, or with issues of business, government, and international competition. Chapters 1 through 8, Chapter 12, and Chapter 15 can be used in a course dealing with international economics and competitive strategy. Similarly, Chapters 1–2, Chapter 5–11, and Chapters 13–15 can be used in a course dealing with management of the MNE. Since chapters and cases are closely integrated, specific chapters (and associated cases) can be assigned to specific sessions in a wide variety of courses dealing with global strategy. In all these instances, this book could also serve as a useful supplementary text.

We recommend that the material in this book be positioned in the MBA curriculum *after* students have had the opportunity to take courses dealing with basic functional issues.

### **Acknowledgments**

We owe a tremendous debt of gratitude to Nick Hall (Tuck ‘95, now with Mercer Management Consulting) who brought to bear impressive scholarly and managerial acumen to developing a number of the cases in the book. His efforts resulted in the inclusion of some of the finest cases we have had occasion to teach. In addition to Nick, we are deeply grateful to Chris Pears (Tuck ‘94, now with Cargill Inc.) and to Michelle Sparrow (Tuck ‘93, now with the MBA Enterprise Corps in Budapest) for their contributions to the development of other cases in the book. We are extremely grateful to Professor Mark Eaker at University of Virginia for giving us permission to include his superb case on ABB.

The material here has been honed by a number of years of classroom testing at the Amos Tuck School and at the American Graduate School of International Management. We owe much thanks to the many generations of students who helped sharpen our insights on (and lent considerable managerial relevance to) the issues addressed in the book. Some of the cases were also classroom tested by Professor Susan Kimmel at University of Michigan, and we are grateful for that.

There are numerous scholars in the field of international business whose writings (or conversations with whom) have had a significant influence on many of the ideas and the arguments developed here. We owe a deep debt of intellectual gratitude to them. A partial list includes Nancy Adler at McGill University, Christopher Bartlett at Harvard University, Jean Boddewyn at City University of New York, Sumantra Ghoshal at INSEAD, Anil Gupta at University of Maryland, Mel Horwitch at Theseus Institute, Stephen Kobrin at University of Pennsylvania, Bruce Kogut at University of Pennsylvania, Donald Lessard at Massachusetts Institute of Technology, Tom Murtha at University of Minnesota, Edgar Schein at Massachusetts Institute of Technology, Lemma Senbet at University of Maryland, Alan

Shapiro at University of Southern California, and Bernard Yeung at University of Michigan. Of course, we alone remain responsible for any errors or omissions in the interpretation of their work and their insights.

We cannot thank the people at Prentice Hall enough. At a time when ideas concerning the MNE are undergoing a paradigm shift and many business schools are still grappling with the vexing issue of how to globalize their curricula, publishers are loath to make bold publishing decisions until after the intellectual dust settles. (Of course, by the time the dust settles, issues also sometimes become jaded in a fast-moving world.) Not so, the team at Prentice Hall—Jackie Aaron, Natalie Anderson, Valerie Ashton, Diane Peirano, Allison Reeves, and Garrett White—who nudged us to undertake this work, and often despite ourselves, convinced us that the project would be a worthy one. Having now completed it—and leaving aside any issues of how the marketplace might respond—we could not agree more. Finally, John Beasley provided outstanding (and patient) editorial services, and we are deeply grateful to him.

Our final thanks, of course, goes to you—that your curiosity has taken you this far. If you feel, as we do, that the contents of this book are worthy of your classroom, we are deeply grateful. However, even if your plan for it is primarily bookshelf adornment, we urge you to peer into the chapters and cases. Any feedback or criticism you can give us—and corrections, additions, or deletions you might suggest—will considerably strengthen future editions.

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**J. Stewart Black** (PhD, UC Irvine '88) is Associate Professor of International Management at the American Graduate School of International Management (Thunderbird), and was previously an Associate Professor of Business Administration at the Amos Tuck School, Dartmouth College. He is the coauthor of two books: *Global Assignments: Successfully Expatriating and Repatriating International Managers* and *Organization Behavior*, and author of numerous articles in the area of international human resource management which have appeared in both managerial and academic publications: *Business Week*, the *Wall Street Journal*, *World*, *Personnel*, *Academy of Management Review*, *Academy of Management Journal*, *Journal of International Business Studies*, *Human Resource Management*, *Human Relations*, and *Group and Organization Studies*. He is editor of *Journal of International Management*, an editorial board member of the *Academy of Management Review*, and a member of the Executive Committee of the International Division of the Academy of Management. Professor Black has consulted for numerous organizations worldwide, and has taught extensively in both the US and Japan. He speaks Japanese fluently.

# Contents

## **PREFACE**

**xiii**

## **CHAPTER 1 INTRODUCTION**

**1**

A Definition of the MNE 2

Distinguishing Aspects of the MNE 4

*Multiple Sources of External Authority (MA)*, 4

*Multiple Denominations of Value (MV)*, 5

The Managerial Challenges Ahead, and Outline of the Book 6

Conclusion 7

## **CHAPTER 2 FORCES OF GLOBALIZATION**

**9**

A Brief Historical Background 10

The Decision to Globalize 11

Why Should the Firm Go Abroad? 11

*The MNE as Exploiting Market Imperfections: Seeking Markets, Efficiency, and Knowledge*, 11

*The MNE and the Life Cycle of Its Products*, 12

*The MNE and Macro-forces of Globalization*, 13

*The MNE and the Competitive Advantage of Nations*, 14

How the Firm Should Go Abroad: The Mode of Entry	15
<i>MNEs and Internalization of Transactions in the Choice of Mode of Entry</i>	16
<i>MNEs and the Role of MA and MV in the Choice of Mode of Entry</i>	16
<i>The Complex MNE: Nonsequential Entry</i>	17

Summary	17
---------	----

## **CHAPTER 3 FOREIGN EXCHANGE: THE BASICS** **19**

Basic Definitions	20
Depreciation, Appreciation, Premium and Discount	20
Purchasing Power Parity	21
Exchange Rates and Nominal Interest Rates	22
<i>Covered Interest Parity Theorem</i>	22
<i>Speculative Efficiency Hypothesis</i>	24
<i>Uncovered Interest Parity Theorem</i>	25
The Foreign Exchange Market	25
Determining the Value of Exchange Rates	26
Types of MNE Exchange Rate Exposure	27
Appendix: A Restatement of Some of the Key Relationships Using the Indirect Quote	28

### **Case 1 Foreign Exchange Problem Set** **29**

## **CHAPTER 4 FOREIGN EXCHANGE: TRANSACTION EXPOSURE** **33**

Forward Markets	34
<i>Hedging Receivables</i>	34
<i>Hedging Payables</i>	35
<i>Receivables and Payables</i>	35
Foreign Currency Futures	35
<i>Hedging with Futures Contracts</i>	36
Currency Options	36
<i>Using Options on Spot to Hedge</i>	37
Other Ways to Manage Transaction Exposure	38
<i>Reducing the Transaction Costs of Hedging</i>	38
<i>Long-Term Hedging: Currency Swaps (Advanced Section)</i>	38
Borrowing or Lending Across Currencies	39
Summary	40

### **Case 2 Piermont Inc.** **41**

### **Case 3 The World Wildlife Fund and Debt-for-Nature** **46**

## **CHAPTER 5 EXCHANGE RATES: ECONOMIC EXPOSURE** **49**

Definitions	49
Revenues and Pricing Strategies	50
<i>The Pricing Strategy Choices</i>	50

*The Choice between Skimming and Penetration Pricing, 52*  
*Conclusions on Pricing Strategies, 53*

**Cost and Sourcing Strategies 53**

*The Sourcing Problem in the Face of Currency Movements, 53*  
*Factors Affecting Cost-based and Sourcing Strategies, 53*

**Competitive Strategies 54**

*Currency Area of Competition, 54*  
*Market Structure (Advanced), 55*  
*Strategic Orientation, 57*

**Case 4 Economic Exposure to Exchange Rates: Problem Set 59**

**Case 5 Campbell Soup in Japan 62**

**Case 6 E.I. DuPont de Nemours in Japan 63**

## **CHAPTER 6 THEORIES OF INTERNATIONAL TRADE 64**

Views of US CEOs, the Public, and Economists on Free Trade 65

The Classical Theories of Trade: Absolute Advantage and Comparative Advantage 65

*An Example of the Comparative Advantage Argument, 66*  
*Intuition behind the Idea of Comparative Advantage, 67*  
*Some Crucial Assumptions Underlying the Ricardo Model, 67*

Factor Endowments and Comparative Advantage: The Heckscher-Ohlin Theory 68

Some Implications of the Theories of Comparative Advantage (or How Free Trade Also Creates the Incentive for Protection) 68

Forms of Protection 70

*Tariff Barriers, 70*  
*Nontariff Barriers, 70*

Impact of Protection on National Welfare: The Case of Tariffs 71

Newer Theories of International Trade: Strategic Trade 73

Summary 74

**Case 7 International Trade: Problem Set 76**

## **CHAPTER 7 THE TRADING ENVIRONMENT OF INTERNATIONAL BUSINESS: LAWS AND INSTITUTIONS 78**

Bilateral Trade Laws: An Overview of United States International Trade Law 78

*Key US Government Agencies Responsible for US Trade Laws, 79*  
*Key Terminology in US Trade Laws, 80*

An Overview of Four Key US Trade Statutes 81

*Section 201: "Escape Clause," 81*  
*Section 301: Unfair Practices Outside the United States, 81*  
*Title VII Cases, Antidumping and Countervailing Duty (CVD), 82*  
*Section 337: Unfair Practices of Import Trade, 83*

Multilateral Trade Laws: An Overview of GATT 83

*The Uruguay Round, 84*



Regional Trading Arrangements: The European Union and NAFTA	85
<i>The European Union</i> ,	86
<i>The North American Free Trade Agreement (NAFTA)</i> ,	87
Summary	88
<b>Case 8 The Chips Are Down</b>	<b>90</b>
<b>Case 9 Boeing versus Airbus: GATT and Mouse</b>	<b>97</b>
<b>CHAPTER 8 THE REGULATORY ENVIRONMENT OF INTERNATIONAL BUSINESS</b>	<b>117</b>
Some General Principles of Law	118
<i>Basic Features of Law in Any Society</i> ,	118
<i>Types of Law in Different Parts of the World</i> ,	118
<i>Some Important Differences in the Application of Common and Civil Laws</i> ,	119
<i>Some Common Categories of Law</i> ,	119
Basic Principles of International Law for Business	120
<i>Sovereignty and Sovereign Immunity</i> ,	120
<i>International Jurisdiction</i> ,	121
<i>The Doctrine of Comity</i> ,	121
<i>The Act of State Doctrine</i> ,	121
<i>The Treatment and Rights of Aliens</i> ,	122
<i>The Appropriate Forum for Hearing and Settling Disputes</i> ,	122
The Void at the Intersection of Sovereign Boundaries	122
Areas of Particular Concern to MNEs	123
<i>International Antitrust Considerations</i> ,	123
<i>Multinational Bankruptcy</i> ,	123
<i>Cross-border Liability</i> ,	124
<i>Trade Disputes</i> ,	124
<i>Protection of Intellectual Property</i> ,	124
<i>Tradeoffs between Business Abroad and National Security/Foreign Policy at Home</i> ,	124
Guidelines for Managers of MNEs	125
Summary	126
<b>Case 10 Dresser (France) S.A. and the Soviet Gas Pipeline</b>	<b>127</b>
<b>CHAPTER 9 THE ETHICAL AND SOCIAL RESPONSIBILITY ENVIRONMENT OF INTERNATIONAL BUSINESS</b>	<b>140</b>
MNE Social Responsibility	140
<i>The Efficiency Perspective</i> ,	141
<i>Social Responsibility Perspective</i> ,	143
<i>Summary</i> ,	144
Ethics in International Business	145
<i>Teleological Perspective</i> ,	145
<i>Deontological Perspective</i> ,	145
<i>Summary</i> ,	146
Foreign Corrupt Practices Act (FCPA)	147
Conclusion	148
<b>Case 11 Union Carbide and Bhopal: Diary of a Disaster (A)</b>	<b>149</b>

**Case 12 Nicolò Pignatelli and Gulf Italia (A)****166****CHAPTER 10: COUNTRY RISK ANALYSIS****175**

The Uses of Country Analysis 175

A Framework of Analysis 176

*Theoretical Thinking, 176**The Role of Values, 177*

Identification: Performance, Strategy, and Context 177

*Performance, 177**Strategy, 178**Context, 179*

Evaluation 181

Diagnosing the Causes 181

Evaluating the Future 184

Prediction or Scenario Generation: China 184

*Best Five-Year Scenario: Pragmatists, 185**Worst Five-Year Scenario: Conservatives, 186*

Conclusion 187

**Case 13 Nike in China****188****CHAPTER 11 POLITICAL RISK ANALYSIS****209**

Prevalent Analytical Techniques 210

*Observational Data Techniques, 210**Expert-based Techniques, 210**Summary of Techniques, 211*

Dynamics of Political Instability 211

*Summary of Dynamics of Political Instability, 213*

Political Instability and Political Risk 213

*Nature of Political Instability, 214**Control of Instability, 214**Relevance to the Firm, 214*

The Political Risk Analysis Procedure 215

*Step 1: Assessing Issues of Relevance to the Firm, 215**Step 2: Assessing Potential Political Events, 216**Step 3: Assessing Probable Impacts and Responses, 216*

Conclusion and Summary 217

**Case 14 Gulfstream and Sukhoi: The Supersonic Business Jet****218****Case 15 Note on the Corporate Jet Market and Supersonic Transportation****230****CHAPTER 12 THE ANALYSIS OF MNEs BY COUNTRIES****237**

Why Governments Worry about MNEs 237

*General Concern for Independence, 237**Concern about Impact on Domestic Firms, 238*

<i>Concerns about Hidden Value,</i>	238
<i>Concerns about Responsibility,</i>	239
Economic Cost Benefit Analysis	239
<i>Cost Benefit Ratio,</i>	240
<i>Present Value of Costs and Benefits,</i>	240
<i>Shadow Price Adjustments and Benefit-Cost Analysis,</i>	241
<i>Example of Differing Valuations,</i>	242
<i>Shifting Perceptions Over Time,</i>	242

<b>Case 16 Dow Indonesia (A)</b>	<b>246</b>
----------------------------------	------------

<b>CHAPTER 13 THE CULTURAL ENVIRONMENT OF INTERNATIONAL BUSINESS</b>	<b>266</b>
--	------------

The Essence of Culture	267
The Nature of Assumptions about the World	269
Cross-cultural Adjustment: The Process	272
The Impact of Culture on Managerial Behaviors	275
<i>Communication,</i>	275
<i>Negotiation,</i>	275
<i>Decision Making,</i>	277
Conclusion	278

<b>Case 17 West Coast University and Hamamatsu Chemical</b>	<b>279</b>
---	------------

<b>CHAPTER 14 COMPETITIVE STRATEGY AND THE INTERNATIONAL BUSINESS ENVIRONMENT</b>	<b>295</b>
---	------------

Two Dominant Views of Strategy	295
Principles of Competitive Strategy Formulation	296
<i>Industry Structure,</i>	296
<i>Competitive Positioning,</i>	297
<i>Sources of Competitive Advantage: The Value Chain,</i>	298
<i>Global Strategy: Coordinating and Configuring the Value Chain,</i>	300
The Effects of MA and MV on Competitive Strategy Formulation	302
<i>The Effects of MA and MV on Competitive Positioning,</i>	302
<i>The Effects of MA and MV on Coordination and Configuration of the Value Chain,</i>	304
Conclusion	304

<b>Case 18 The Honda-Yamaha War (A)</b>	<b>306</b>
---	------------

<b>CHAPTER 15 DESIGNING ORGANIZATIONS FOR INTERNATIONAL ENVIRONMENTS</b>	<b>312</b>
--	------------

Basic Principles	312
<i>Differentiation vs. Integration,</i>	313
<i>Formal vs. Informal Structures,</i>	314
<i>Centralized vs. Decentralized Structures,</i>	315
Organizational Structures	315
<i>International Division Structure,</i>	315
<i>Global Functional Structure,</i>	319
<i>Geographical Area Structure,</i>	319
<i>Global Product Structure,</i>	320
<i>Global Divisional Structure,</i>	320

*Global Customer Structure, 321*  
*Global Matrix Structure, 321*  
*Mixed Organizational Structures, 321*

Contingencies in Organizational Design 322

*Organizational Uncertainty, 322*

*Globalization vs. Localization, 323*

*Information Exchange, 324*

*Contingency Heuristic, 325*

Warning Signs 328

Conclusion 329

**Case 19 ABB Asea Brown Boveri (A): The Merger**

**330**

**INDEX**

**341**



# Introduction

What is a multinational enterprise (MNE)? Why is it an important organizational form to study? Do any features differentiate it from a non-MNE? If so, what are these features, and what are their implications?

In this chapter (and throughout the book) we address these key questions, and, in the process, set the tone and the context for this book. We shall argue that there are, indeed, differences of kind, as opposed to simply differences of degree, that distinguish MNEs from non-MNEs. Moreover, they result from the environment in which the MNE operates. Managing across borders requires the ability to deal with the challenges presented by these unique features of the MNE environment.

Few will debate the importance of MNEs in the world economy. *The Economist* reports that there are approximately 35,000 MNEs around the world today, controlling over 170,000 foreign affiliates. It estimates that roughly half of all cross-border corporate assets are accounted for just by the top 100 MNEs, and that the top 300 MNEs control 25% of all the world's productive assets. In 1970, half of the 7,000 existing MNEs were either American or British. In contrast, by 1993, about half of the 35,000 MNEs were American, Japanese, German, or Swiss. Increasingly, many of the MNEs originate from the newly industrializing economies of the Far East, Latin America, and South Asia.

Thus, while the presence and influence of MNEs are beyond debate, what remains contested is whether MNEs require separate study by scholars or students. If placing the words “international,” “global,” “transnational,” or “multinational” before the word “enterprise” or “corporation” simply means that a few standard functions of an organization change to some small degree, then there is little reason to study these organizations separately. If, however, there are differences in kind—or, at least, the differences are substantial enough in degree—between MNEs and non-MNEs, then it is important for those preparing to become global managers to have an in-depth understanding of the unique aspects of operating in the international business environment.