



Experiencing International Business and Management

BETTY JANE PUNNETT

Experiencing International Business and Management

Second Edition

Betty Jane Punnett

University of Windsor

Wadsworth Publishing Company

Belmont, California

A Division of Wadsworth, Inc.

**To Roz,
Whom we think of always with love**

Editorial Assistant: Joan Paterson

Production Service Coordinator: Debby Kramer

Production: Cecile Joyner, The Cooper Company

Print Buyer: Karen Hunt

Permissions Editor: Peggy Meehan

Copy Editor: Lura Harrison

Technical Illustrator: Theresa Roberts

Compositor: Patricia Douglass

Printer: Maple-Vail Book Manufacturing



*This book is printed on
acid-free recycled paper.*

ITP™

International Thomson Publishing

The trademark ITP is used under license.

© 1994 by Wadsworth, Inc. All rights reserved. No part of this book may be reproduced, stored in a retrieval system, or transcribed, in any form or by any means, without the prior written permission of the publisher, Wadsworth Publishing Company, Belmont, California 94002.

Printed in the United States of America.

1 2 3 4 5 6 7 8 9 10 — 98 97 96 95 94

Library of Congress Cataloging-in-Publication Data

Punnett, Betty Jane.

Experiencing international business and management/Betty Jane

Punnett.—2nd ed.

p. cm.

Rev. ed. of: Experiencing international management, 1989.

Includes index.

ISBN: 0-534-21462-2

1. International business enterprises—Management—Simulation methods. I. Punnett, Betty Jane. Experiencing international management. II. Title.

HD62.4.P86 1994

658.1'8—dc20

93-24219

Preface

It seems clear that the business world of today is no longer limited by national boundaries and that organizations need to have a global perspective if they are to survive and prosper in this international environment. Many will succeed or fail on the basis of their ability to deal with this dynamic environment.

Managing virtually any business in the 1990s and in the twenty-first century will require some international contacts. This is just as true of the small manufacturer that buys foreign materials and employs immigrant workers as it is of the global company, which views the world as both a market and a source of supply. The scope of these two examples is different, but both face an international environment, and neither can overlook its implications.

The international environment is complex because of the interactions and transactions that take place across national boundaries; this is the key difference between international companies and those that are essentially domestic. The increasing need to interact with the complex international environment means that international expertise is of growing importance to companies. In spite of this, it appears that there is a decreased availability of individuals with such expertise. In the past, most international managers acquired international expertise on the job through assignments abroad. But fewer Americans and Canadians are now being stationed abroad.

One solution to this problem is an increased emphasis on international management in business programs offered by universities. Many universities have responded to this challenge by internationalizing their curricula. The complexity of the international environment means, however, that it is often difficult for students to appreciate the practical implications of international management decisions in the classroom. The purpose of this book is to give students an opportunity to address international decisions in a simulated real-life setting. The exercises and projects included here encompass many of the major management processes in international management and include decisions that relate to the various business functions. They are intended to give the student an appreciation of decision making in the complex international environment. It is my hope that the experiential approach provided in this book will serve to increase students' readiness to work in the international environment of the 1990s and beyond.

This second edition incorporates suggestions from current users and reviewers, as well as from my own students. I would like to draw your attention to the following differences from the first edition:

- The title has been changed to *Experiencing International Business and Management*, reflecting comments by colleagues that the book is appropriate for use in a variety of courses with both a business and a management focus.
- Several new exercises have been added in response to reviewers' suggestions.
- All material has been updated to reflect the most recent information at the time of writing. This is particularly relevant to the Country Profiles. Suggested readings have also been expanded to include more recent papers, books, and so forth.
- Additional new materials have been added, including:
 - a discussion of the European Community
 - a table of information on the Caribbean area known as the West Indies
 - a discussion of recent developments in Eastern Europe
 - a discussion of the North American Free Trade Agreement
 - a list of sources of information in international business and management
 - a list of suggested paper or presentation topics
- The Country Profiles section has been reorganized to reflect the emergence of a number of regional trading blocs.

Although this edition contains current information at the time of writing, it is important for users to recognize that information, particularly country/regional profile information, needs to be updated regularly. The world of international business and management is a rapidly changing one, and this should be reflected in your use of this book. I hope that *Experiencing International Business and Management* will add a worthwhile component to your study, and I welcome any suggestions you may have for future editions.

Acknowledgments

It is impossible to thank individually all of the people who have contributed to this book. I could not have written it without the training and insights provided by my colleagues and teachers. I could not have written it without the support of all my family and friends. I would like to mention individually Allan Date and Jeanne Drouillard, who put many hours into gathering data for the Country Profiles, and Paula Gignac, who put many hours into typing and retyping parts of the manuscript. Reviewers for the second edition provided valuable feedback, and their comments have, I believe, strengthened the book; my appreciation goes to: Gary N. Dicer, University of Tennessee; Maureen J. Fleming, University of Montana; Stephen J. Kobrin, Wharton School, University of Pennsylvania; and Joel D. Nicholson, Illinois State University. I owe special thanks to my husband, Don Wood, who untiringly read and reread the manuscript through all of its stages; without his patience and insight it would never have been completed. Many thanks are due to Amanda Kelley and Justin Kelley, my children, who gathered data for updating the second edition, and to the University of Limerick for administrative support during my sabbatical in Ireland. Finally, I would like to mention particularly my father and mother, Langley and Betty, without whom I would not have reached the stage of attempting to write such a book.

Betty Jane Punnett

Contents

Preface **ix**

Introduction and Overview **1**

An Introduction to Experiential Learning	3
Organization of the Book	4
Student Participation and Learning	5
An Overview of International Management	5
Summary	21
References	22
Suggested Readings and Sources of Information	23

Part **1** Exercises **31**

Exercise 1	How Do You Define an International Company?	33
Exercise 2	Benefits of Trade	33
Exercise 3	Trade Considerations	35
Exercise 4	Choosing a Supplier	36
Exercise 5	Friendly Negotiations	38
Exercise 6	How Do You Negotiate?	38
Exercise 7	Would You Give a Bribe?	40
Exercise 8	A Question of Foreign Exchange Rates	41
Exercise 9	The Relative Value of Money	42
Exercise 10	Exchange Rates, Investment Decisions, and Balance of Payments	42
Exercise 11	An Advertising Campaign	43

Exercise 12	Expatriate Assignment and Repatriation	44
Exercise 13	Social Responsibility: It All Depends on Your Point of View	45
Exercise 14	Japanese Management Practices	47
Exercise 15	How about Stereotypes?	55
Exercise 16	What Is Culture?	55
Exercise 17	Managing Political Risk	56
Exercise 18	Environmental Concerns	57
Worksheets for Exercises		59

Part 2 Projects 73

Project 1	Update of Country Profile Information	75
Project 2	Additional Country Profiles	75
Project 3	Export Decisions	76
Project 4	Investment Decisions	78
Project 5	Case Studies	78
Project 6	Parent Country Nationals, Host Country Nationals, or Third Country Nationals?	81
Project 7	Choice of Expatriate Managers	82
Project 8	Fitting In	83
Project 9	Cross-Cultural Organizational Behavior	84
Project 10	Designing Projects	85
Suggested Presentation Topics for International Business/Management		85
Worksheets for Projects		89

Part 3 Profiles and Mini-Cases 107

Individual Personal Profiles	109
Profile 1	Sandy Merrifield 109
Profile 2	Clarke Jenkins 110
Profile 3	Bambi Totts 111
Profile 4	Karl Goss 111
Profile 5	Luis Alvarez 112
Profile 6	Katherine Wilson 113

Profile 7	Peter Swarz	114
Profile 8	Jean Bade	114
Profile 9	Richard Capwell	115
Profile 10	Karen Coombs	116

Mini-Cases **117**

Mini-Case 1	Forms, Incorporated	117
Mini-Case 2	Black Beauty Corporation	120
Mini-Case 3	Beverages, Inc., International	122
Mini-Case 4	International Products, Limited	125
Mini-Case 5	Bata Shoe Organization	127

Regional Profiles **129**

Profile 1	The European Community	129
Profile 2	Eastern Europe	148
Profile 3	The North American Free Trade Agreement	154
Profile 4	The West Indies	156

Country Profiles **166**

Profile 1	Brazil	167
Profile 2	Canada	179
Profile 3	China	197
Profile 4	France	212
Profile 5	India	229
Profile 6	Jamaica	244
Profile 7	Japan	256
Profile 8	Malaysia	273
Profile 9	Saudi Arabia	288
Profile 10	United Kingdom	303

Index for Country Profiles	319
----------------------------	------------

Introduction and Overview

International aspects of management are being integrated into university curricula throughout the United States and Canada, as well as in other countries. The American Association of Collegiate Schools of Business (AACSB) has formally recognized the need for a greater international focus at the university level, and academic institutions are actively pursuing an increased international emphasis.

Many teaching approaches can be effective in pursuing this emphasis; among them are lectures, readings, library research, field research, case studies, and various types of simulations and exercises. Some teaching approaches focus on the study of theories and concepts; others focus on the real world and how theories and concepts apply in practice. Many instructors incorporate a blend of approaches into their classes.

This book presents a number of experiential exercises and projects for use in class and as homework. They illustrate some of the complexities of international management decisions and may be used in combination with the other teaching methods mentioned here. They have been designed to be fun, yet realistic; and students find they add an interesting and enjoyable dimension to classes.

An Introduction to Experiential Learning

Experiential learning broadly refers to learning that occurs from experience. If you cross the street without looking and get hit by a car, and if you learn from the experience to look both ways before crossing, then you have encountered experiential learning. Much of our learning is experiential, and we engage in experiential learning every day. In a classroom setting we attempt to achieve the same learning through the use of exercises that simulate a portion of the real world; we ask students to pretend the situation is real and make decisions in that context.

The overall learning process has been described in terms of four modes: concrete experience, reflective observation, abstract conceptualization, and active experimentation (see Kolb, 1984, for a detailed discussion of these learning styles). People use all four of these styles, but different individuals may emphasize one or another and learn more effectively through that approach.

Effective teaching incorporates opportunities to use all four learning styles. The most difficult to incorporate into the traditional classroom is concrete experience; the aim of the exercises and projects presented here is to provide an opportunity for some concrete experience learning in the classroom.

The Benefits of Experiential Learning

The exercises and projects in this text are intended to increase variety and interest in the classroom, while providing an effective learning environment. Proponents of experiential learning believe that:

- Learning is intensified when the process is interesting and fun.
- Learning generates involvement and interest when it provides active experience of concepts.
- Learning is effective when it is an active rather than a passive process.
- Learning is most effective when thought, action, and feedback are integrated.

- Learning that involves two-way communication is most effective.
- Learning is enduring when it is problem-centered.

These exercises and projects are designed to take advantage of these benefits. They have been tested with student groups to ensure that students find them interesting and learn from them.

What Students Should Expect

Some of the exercises and projects presented in this book are intended for larger groups, some for smaller; some are done individually, others in groups; some are done entirely in class, some involve limited outside work, others may be prepared entirely outside class; some involve class presentations, others written assignments; some are short, others can take several hours. The author's intent has been to prepare a variety of exercises and projects so the instructor can choose those that are most appropriate for a particular course and group of students; therefore, he or she will probably assign only some of the exercises or projects. These will be the exercises that the instructor feels are most meaningful for students, given the other learning experiences to which they will be exposed.

I would encourage students to read and think about all the exercises and projects, even though some may not be assigned. They will add to an overall appreciation of the challenges and complexities of international management.

Organization of the Book

The book is divided into several parts. Part 1 contains a series of exercises that are designed primarily for in-class use. Part 2 is made up of projects designed primarily for work outside of class. Part 3 consists of mini-cases and regional/country profiles.

Regional and country information is the most current available as of 1992. These data are based on secondary sources, not firsthand information; this type of information would be readily available to decision makers in the real world. The countries chosen are varied in terms of geography, religion, language, race, political system, economic development, and so forth, in order to give a sense of the diversity of situations found in the real world.

The projects that use the profiles involve outside research and decision making. Two focus on updating country information and developing additional country profiles; the update project is important because country information changes constantly, and the development of additional country profiles provides an opportunity for students to study countries of particular interest. The decision-making projects mirror decisions that multinational companies frequently make and deal with companies, individuals, and countries in order to make them realistic.

The exercises in Part 1 can be viewed in terms of the management process—planning, organizing, staffing, directing, and controlling—as well as in terms of their functional focus.

There are many other issues faced by international companies that could have been included in this book; these exercises and projects, however, should give you an appreciation of the complexity of decisions in companies that are international.

Student Participation and Learning

Learning is always partially a function of participation, but this is particularly true with experiential learning. If a student participates with enthusiasm, learning can be substantial for everyone involved and enjoyable, as well. In contrast, if a student chooses not to participate there will be little benefit for that individual; further, this makes learning more difficult and less enjoyable for classmates.

Some students are uncomfortable with this method of learning because they find it unstructured and wonder how much real information can be gained in exercises. If you feel uncomfortable and concerned about this as a means of learning, why not try to “suspend your disbelief,” relax, and enjoy the process, then reevaluate it at the conclusion.

An Overview of International Management

The following brief description of the major characteristics of international management will give students a preliminary overview of the context in which the exercises in Parts 1 and 2 take place.

Managing a business in the environment of the 1990s and the twenty-first century will almost certainly involve international management. This can range from the small manufacturer, which may employ a cross-cultural work force, to the global company, which may view the world as a market for both inputs and sales. The scope of these two examples is different, but both face an international environment, and neither can overlook its implications.

Corporations are developing a global perspective to survive and prosper in this international environment. This is a challenge for the organizations of the late twentieth and early twenty-first century. Many will succeed or fail on the basis of their ability to deal with this dynamic environment.

International business itself is not new; international companies have existed for a long time. If one goes back to the earliest records of the Egyptians, the Greeks, the Phoenicians, or the peoples of the Far East, there are references to business having been transacted across borders. The difference today stems from rapid advances in transportation and communications technology that have resulted in relatively fast and easy global movement and communication. This means that virtually all business has some international aspects. Anyone who is involved in the management of a business organization, therefore, needs to be concerned with the international nature of his or her business.

Historical Overview

The post-World War II era has seen a rapid expansion of international business. This internationalization of business has been described by Robinson

(1981) in terms of the “actors” participating in the process. The four major phases follow.

Phase 1: World War II–1955 This phase consists basically of two actors: the firm itself and its foreign commercial constituencies (customers, suppliers, licensees, joint-venture partners, and so on). This was a relatively simple environment, where companies’ strategies were largely determined by the company itself, with little concern for groups other than its immediate constituencies.

The United States dominated this phase of international business. Whereas Europe and Japan were under reconstruction following the war, the United States was powerful and respected. U.S. technology, machines, and consumer goods were in demand around the world; this led to increased exports at first, then when foreign trade barriers were imposed, to foreign direct investment.

During this period, many less developed countries were not yet independent, national policies on foreign investment were still being formed, and those national policies that existed were poorly implemented. This gave international companies virtually free reign in their international activities. It was a time when “American management” was considered superior, even though there were many successful European companies operating internationally. Thus, U.S. companies managed their foreign subsidiaries with U.S. citizens, and training for these international assignments was not considered necessary.

Phase 2: 1955–1970 This phase consists of three actors: the firm, its commercial constituencies, and the host government. International companies had become large by this phase, with globally integrated production and marketing. U.S. multinational corporations (MNCs) were owned, controlled, and managed by U.S. nationals. Concurrently, many less developed countries (LDCs) had become independent and sensitive to the potential loss of sovereignty represented by giant foreign corporations. The more developed nations had formulated policies regarding foreign investment and were implementing these consistently. These factors combined to make relations with host governments an important consideration for international companies.

Europe and Japan had rebuilt following the war, and European and Japanese companies had increased their presence in the international arena. This meant increased competition for U.S. companies and also provided alternative sources of capital, skills, and technology for host governments. A shift of power from international companies toward host governments occurred, increasing the risks faced by these companies. “American management” was still admired, but there was increasing recognition of the important role of individuals with international expertise in successful international operations.

Phase 3: 1970–1980 This phase involves four actors: the company, its constituencies, the host government, and, in addition, the parent government. During this phase, parent governments increasingly recognized that the activities of their international companies, outside of their own boundaries, had an impact at home in terms of employment, foreign exchange rates, trade, and so forth. Further, the activities of subsidiaries could have political repercussions important to the parent

country. This realization led to increased attempts on the part of parent countries to regulate the foreign activities of their international companies.

The international environment had become much more complex than it was in the 1940s and 1950s, and international companies needed to consider their impact on a variety of groups. Understanding and analyzing this environment was recognized as important to successful international operations, and companies began formalizing their approach to assessing the international environment and managing the international operations.

Phase 4: 1980–Present This phase can be considered a multiactor phase for international companies. In addition to the previously identified actors, there are now international agencies, religious groups, ethnic groups, and various other interest groups demanding attention from international companies. At the same time, all of the actors are becoming more sophisticated and expert at dealing with the international environment. In addition, international companies in this era can originate from any country of the world.

There is no reason to expect the international environment to become less complex in the future. In fact, the existence of increasingly sophisticated technology worldwide suggests that the international environment will continue to become more complex. This will provide new opportunities and threats for international companies. A complex international environment means that international expertise is vital to the successful operation of many companies.

For companies to manage effectively in this complex and changing global environment, they need to be sensitive to the objectives and activities of all the actors now involved. Companies need skills that can help them assess the impact of various international factors on their businesses.

The Need for International Expertise

The brief discussion of the phases through which international business has progressed since the 1940s demonstrates its increasing complexity over time. This complexity, stemming from interactions and transactions across national boundaries, is the key difference between international companies and those that are essentially domestic. The choices for the international company are more varied than those available to its domestic counterpart, and are, consequently, more difficult to assess. Improved international expertise, useful in all business today, is of growing importance to those companies whose primary opportunities lie in global activities. International management is not different in kind from domestic management, rather it is different in scope; the same management issues are faced by domestic and international companies, but the solutions may be different.

A study by Kobrin (1984) suggested that while there is an increasing demand for international expertise, there is a decreased availability of individuals with such expertise. In the past, most managers have acquired international expertise on the job, through assignments abroad. In the 1980s, however, fewer Americans and Canadians have been stationed abroad than before while the need for people with an understanding of the international environment continues to grow. The

increasing emphasis on international management in business programs offered by universities seeks to solve, in part, this dilemma.

The Nature of International Business

The complexity of the international business environment means that international ventures are inherently more risky than purely domestic ones. For rational business decisions to justify international activities, therefore, there must be perceived benefits that outweigh the risks. International operations generally can be seen as either proactive or reactive. *Proactive* international ventures are undertaken to take advantage of perceived opportunities; *reactive* ventures are undertaken in response to actions taken by other parties or to defend against perceived threats.

Exhibits I.1 and I.2 summarize the major proactive and reactive motives that account for companies becoming international in their operations. Proactive motives include resource availability, lower costs, incentives, new markets, exploiting firm-specific advantages, and international tax advantages. Reactive

Exhibit I.1 Proactive Reasons for Engaging in International Business

<i>Advantage/opportunity sought</i>	<i>Explanation</i>
Additional resources	Various inputs, including natural resources, technologies, skilled personnel, and materials, may be easier to obtain outside the home country.
Lowered costs	Various costs, including labor, materials, transport, and financing, may be lower outside the home country.
Incentives	Incentives may be available from the host government or the home government to establish operations in, or trade with, foreign countries.
New/expanded markets	New and different markets may be available outside the home country; excess resources, including management, skills, machinery, and money, may be utilized in foreign countries.
Exploitation of firm-specific advantages	Technologies, brands, and recognition can all provide opportunities in the global environment.
Taxes	Differing corporate and income tax systems in different countries provide opportunities for companies to maximize their worldwide after-tax profits.
Economies of scale/synergy	National markets may be too small to support efficient production, while sales from several national markets combined are more efficient. Synergy can be obtained from transferring learning across national boundaries.

Exhibit 1.2 **Reactive Reasons for Engaging in International Business**

<i>Outside occurrence</i>	<i>Explanation</i>
Trade barriers	Tariffs, quotas, buy-local policies, and other restrictive trade practices can make exports to foreign markets impractical; local operations in the foreign location thus become desirable.
International customers	If the customer base becomes international and the company wants to continue to serve it, local operations in foreign locations may become necessary.
International competition	If the competition becomes international and the company wants to remain competitive, foreign operations may become necessary.
Regulations	Regulations and restrictions imposed by the home government may increase the costs of operating at home; it may be possible to avoid these by establishing foreign operations.

motives include reacting to trade barriers, responding to international customers or competitors, and seeking to avoid home country regulations.

Proactive Explanations International differences in customs and cultures, as well as differing factor endowments, provide many opportunities for companies outside of their home borders, as the following illustrates:

- Resources are available in some locations and not in others, they are easier to access in certain locations, or they can be cheaper and subject to fewer restrictions. This is true of natural, human, and technological resources.
- Costs are lower in some locations than in others. Natural resources are less expensive in locations where they are plentiful, and labor costs are lower where labor is abundant. In addition, transportation and energy costs may differ depending on the location of production and markets. The costs of doing business, including interest rates and taxes, vary from country to country.
- Many governments offer incentives to encourage companies to do business with or in a particular country or region. Incentives offered by host governments include such things as provision of industrial buildings, insurance, tax exemptions, tax holidays, and interest-free loans. Incentives offered by home governments include trade assistance, subsidies, low-interest loans, and risk insurance. These incentives can increase profits and decrease risks, making foreign operations very attractive.
- Different levels of economic development and different life-styles, customs, and conditions throughout the world all provide opportunities for new markets in foreign locations. A mature product in a declining market at home