

# INTERNATIONAL

B U S I N E S S

Theory and Managerial Applications



Robert Grosse & Duane Kujawa

Second Edition

# INTERNATIONAL BUSINESS

Theory and Managerial Applications

Second Edition

Robert Grosse  
Duane Kujawa

*Both of the  
University of Miami*

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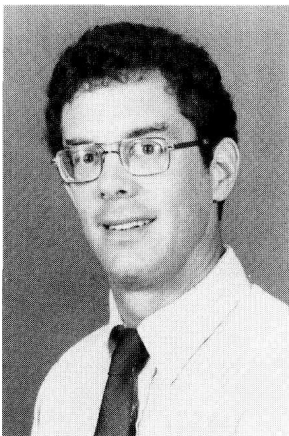
# About the Authors



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# Preface

International business is the field of study that focuses on business activities that cross national boundaries. It includes exports and imports—the subject of traditional international trade discussions—as well as foreign direct investment, international banking, and international transfer of technology, global business strategy, and many more topics. Our concern is to present a panorama of the most important activities in international business and to offer a framework for thinking about them from the perspective of the company manager.

As countries enter into more highly-linked regional blocs (such as the European Community and the North American Free Trade Area), the analytical techniques and strategies presented here can be applied to inter-regional business. Similarly, as some countries become more decentralized in their power structures (such as Canada with the isolationism of Quebec, or several Eastern European countries with their multi-ethnic divisions—or even in the United States, with its huge Latin American population today), the thinking learned in international business will apply in inter-province or inter-state or inter-cultural business contexts as well.

In fact, what distinguishes international business from its domestic counterparts is not so much the analytical techniques, since most of them can be applied at both domestic and international levels, but rather the context itself. That is, at the international level the key variables that a manager must cope with include different *currencies* whose values change, and different *government policies* (e.g., taxes, antitrust rules, financial controls)—along with the variables that exist in any domestic context, such as competition, cost conditions, and customer characteristics. In addition, different *cultures* exist in different countries, although cultures within individual countries also often differ importantly, as well.

Analysts of international business have developed some perspectives that are uniquely international—such as Vernon's international product cycle (discussed in Chapter 3), Dunning's eclectic theory of international production (discussed in Chapter 4), and all analyses of currency exchange rates (discussed in Chapter 6). Nevertheless, much of what is used in marketing, finance, strategy, and other business functional areas can be applied to international business phenomena. Indeed, the basic analytical perspective used in this book is the competitive advantage view of business strategy, which was developed in the domestic context and can be readily applied to international business as shown throughout the text.

There are many important challenges and problems that face firms that do business outside of their home countries. How can you handle business in

different currencies? What are the ways of dealing with governments and operating effectively in diverse legal environments? Is it possible to avoid some of the business problems that arise due to cultural differences among people from different countries? What strategies will enable a firm to compete successfully against rivals from other countries? All of these questions and many other key concerns of decision-makers operating in international business are treated in this book. Conclusive answers are not always possible, but logical methods for dealing with the questions are developed and analyzed.

Many of the concerns of decision-makers in international business have to do with environmental (as opposed to company-specific) factors such as government policies and economic conditions in different countries. Such issues as the oil crisis of the 1970s, the international debt crisis of the 1980s, and the opening of Eastern Europe in the 1990s have forced companies in all industries to come to grips with higher and more volatile inflation and interest rates, greater risks in less developed countries, and possible opportunities or challenges from a much stronger, larger Europe. The evolution of international firms has pushed older, largely ethno-centric, multinationals from North America and Europe to cope with newer rivals from Asia. At the same time, competitive pressures from all sides are pushing firms to become at once global and multi-domestic, that is, to create global strategies to try to maximize efficiency and to be responsive to domestic demand pressures in each major national market served.

These conditions really go to the core of business at the end of the 20th century. Whether a firm is international or not, its competitors may come from different countries, its suppliers likewise may be domestic or foreign, and the environment in which it operates may depend on activities of foreign governments and firms.

It is in this context that the present book has been written. Although its focus is international, the decision-making methods and considerations presented in the book generally apply to domestic firms as well. From another perspective, it is our hope that the content of this book will be developed further in the traditional courses in finance, marketing, strategy, etc. There can be no doubt that business around the world has become open to foreign competitors, foreign markets, and foreign supply sources; so any manager should understand the implications of these phenomena for the firm.

## **Purpose and Organization**

The text was designed for a survey course in international business at the undergraduate or MBA level. It is a comprehensive text, intended to be used in a one-semester course, with the selection of chapters left to the instructor's discretion. It should also prove useful as a reference source both in subsequent courses and in business practice.

The material is organized into five sections. The first section introduces the subject of international business and explores the scope of the field. It also presents the central conceptual base of the text, the theory of competitive advantages. The second section treats the "environment" that faces decision-makers in international business. The basic economic fundamentals that affect trade, investment, and other business activities between countries are presented in this section, along with a description of the institutional structure of the international economy. Part 3 provides in-depth coverage of functional areas of



business administration and other broad managerial concerns, at the international level. In addition to chapters on international marketing and international finance, etc., this section examines cultural issues, transfer of technology, and export/import management. Part 4 is a particularly distinctive aspect of the book; it looks at international business activities and government policies in three major kinds of countries: the industrial nations, the less developed countries, and the formerly-communist countries. Finally, the last section presents detailed studies of international business in four industries—oil, banking, autos, and telecommunications. It concludes with some thoughts about where multinational firms—or *international contractors* as we call them—are headed in the 21st century.

This text is distinctive from others in the field because of its unifying theme of “competitive advantages,” which gives continuity to what are all too often studied as free-standing topics. Also, throughout the text, real-life business situations are cited to clarify the material being discussed and to make it more exciting and interesting. The cases presented at the end of each chapter give further opportunity for understanding the material in its practical aspects and applications.

New sections called “IB Illustrations” and “Added Dimensions” are used to provide more detailed discussion of some topics and to illustrate the ideas with current examples of international business activities. The “Added Dimensions” are used to cover topics that appear in the text in more depth, when that kind of coverage could detract from the flow of the main text. The “IB Illustrations” are used to separate examples that apply concepts from the text, so that the analytical logic and clarity are maintained, and the examples can be used to reinforce the reasoning in the text.

Based on evaluations from many of the users of the first edition of the book, several structural changes have been made. The chapter on “Developing a Global Strategy” has been moved up to the early part of the book, reflecting instructors’ preferences to present the integrative concepts earlier in the course. Chapter 2 on “Competitive Advantages” has been thoroughly revised to present the key analytical tools more clearly. Chapter 12 on the “Cultural Environment” has been completely revised to better deal with this important aspect of international business. And finally, more cases and examples have been added to both illustrate the concepts and update the application of ideas to current international business activity.

## Changes in the Second Edition

The world has experienced a huge upheaval since the first edition of this book was published. The fall of the Berlin Wall in 1989 signaled the end of the Cold War, which had been a primary feature of international politics and a limitation on international business since 1945. When the Soviet Union under President Gorbachev chose to open its economy to private-sector business and to pursue a more market-based set of policies, this dramatic change eliminated the communist alternative as a major challenge to the global market system. While the former members of the Soviet bloc are still economically weak, these countries constitute a major new business opportunity for international firms today and a potential source of new challengers to competitors in Europe and elsewhere in the future. The text discusses these major changes in detail in the

rewritten Chapter 23, along with the “Skoda” case and text references in other chapters.

Along with the disintegration of the communist bloc has come renewed effort at integration within several regions of the world. The European Community and its “Europe 1992” figure centrally in this picture. The nations of the European Community are dropping literally hundreds of barriers to business among the members—and additional countries are pushing for membership in the group. Similarly, the United States and Canada formed a free trade area in 1988, and Mexico has been negotiating membership in that group. The North American free trade area, even as it is being constituted, is receiving requests from Latin American countries for membership, toward a free trade area of the Americas. These important shifts and other inter-country cooperative efforts are discussed in the rewritten Chapter 10 on “Economic Integration.”

The world economy continues to become more dominated by service-sector activities (e.g., financial services, consulting, computer programming, hotels and restaurants, transportation service, telecommunications service, etc.) in the 1990s. This reality is reflected in the greater number of examples and cases related to service industries throughout the text. The increasingly cost-driven competition in manufacturing worldwide is emphasized in the discussion of offshore assembly and foreign sourcing of production in several chapters. And the undiminished centrality of key raw materials industries such as oil is emphasized in Chapter 24, as well as elsewhere through the text.

The increasing use of inter-company alliances (strategic alliances) in domestic and international business is discussed especially in Chapters 5 and 13, but also throughout the book in new examples and new cases. These alliances were first seen extensively in the auto industry, with all of the major multinational manufacturers forming joint ventures and other partnerships with their rivals. The “NUMMI” case in Chapter 12 presents a detailed look at the Toyota-General Motors joint venture plant in California.

As with the first edition, an instructor’s guide and a computerized test bank are available to accompany the text. These supplementary materials provide the instructor with suggestions for presentation of the chapters and cases, additional readings, and more than 2,000 test questions based on the text.

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There are more than 100 business people who provided information and interpretations about their firms’ international business activities that are incorporated in the book. Those with whom we worked most closely are the several senior executives in multinational firms and international banks who are also members of our International Business & Banking Institute’s Board of Advisors. They are: Pat Oliver, George Barton, Gene Rostov, Gonzalo Valdes-Fauli, Clovis



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While this book reflects valuable inputs and influences from all of these people, we want to note that we alone take responsibility for its contents. In closing, we invite you—professor or student—to share your thoughts on this book with us. A good text is one that lives and that reflects the needs and interests of both professors and students as they and the field evolve over time. We think that this is a good text, and we would value your comments to make it even better.

ROBERT GROSSE  
DUANE KUJAWA

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