

International Business

The New Realities

FIFTH EDITION

S. Tamer Cavusgil • Gary Knight • John Riesenberger

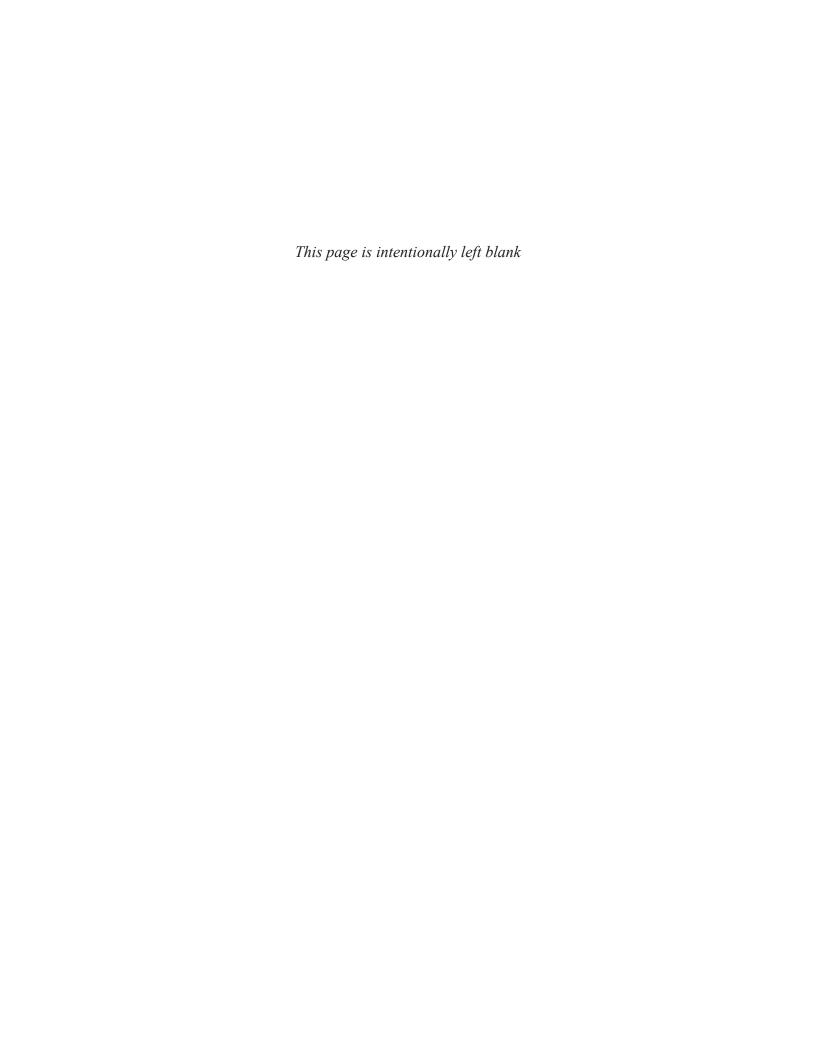


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Fifth Edition

Global Edition



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Dedicated to...

This book is dedicated to all those who feel passionate about cross-border business, our readers around the world. I trust that this edition will inspire and help you discover the magic of international business. Since any journey is much more rewarding when you are accompanied by others, I also dedicate this edition to my students of four decades whom I had the opportunity to mentor over the years.

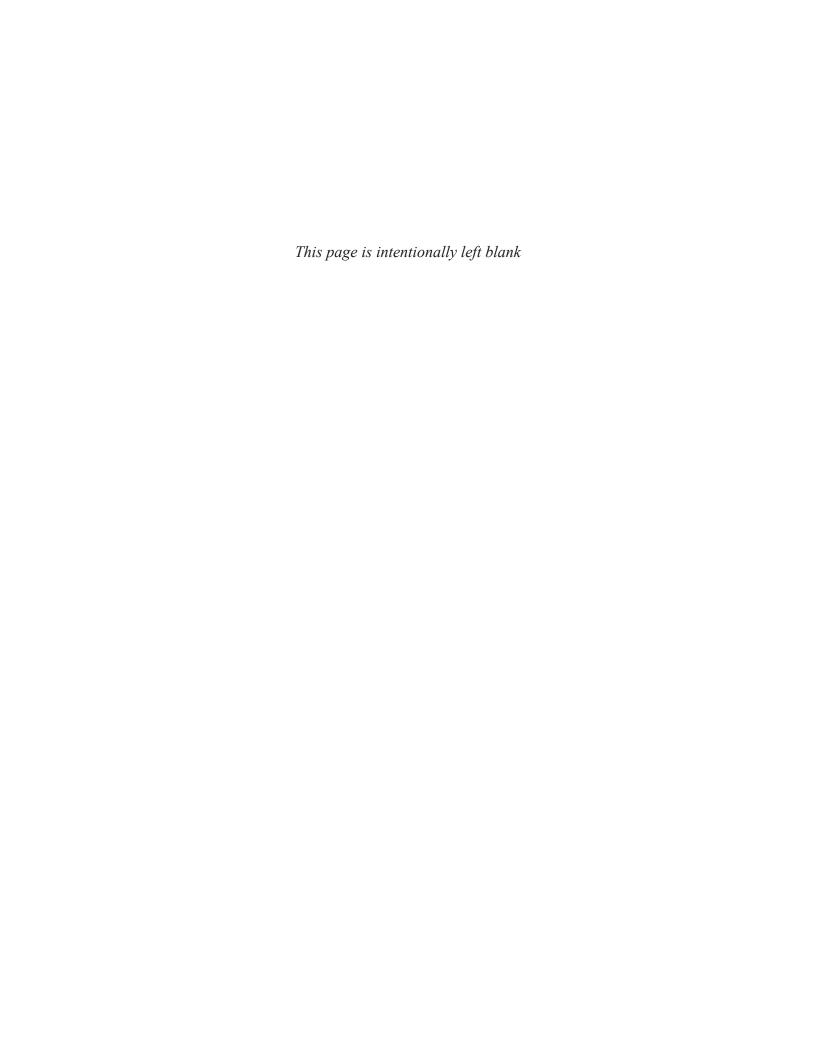
S. Tamer Cavusgil Atlanta, Georgia

This book is dedicated to my wife, Mari, for her intellect, patience, and adventurous spirit; to Bill and Audrey, and to Hiroshi and Hisako, for being great parents and role models; and to the many students I have had the good fortune to influence over the years.

Gary Knight Salem, Oregon

This book is dedicated to my parents, Richard and Marie Riesenberger, for their example, many sacrifices, and love. To my wife and best friend, Pat, for her enthusiasm and loving support. To my daughters, Chris and Jen, of whom I am so very proud and thankful. To Byron, Ann-Marie and Terry, who enrich my life. To my amazing grandchildren, Ryan, Paige, Ethan, and Emma—the future of the New Realities.

John R. Riesenberger Scottsdale, Arizona



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Preface

New to This Edition

Our aim is to keep the text fully up-to-date and at a reasonable length. Thus, we have dropped some items and added new ones. From Chapter 4, we dropped the Closing Case on Bribery and Corruption at Siemens. From Chapter 5, we dropped the Closing Case on Hyundai and the Global Auto Industry. From Chapter 6, we dropped the Opening Case on Risks in Russia's Political and Legal Systems.

To replace the above dropped items and maintain currency, we have created new or greatly revised opening and closing cases in the fifth edition of Cavusgil, Knight, and Riesenberger (CKR 5e) as follows:

Chapter 2: A new Opening Case on Skype: A "Born Global" Business

Chapter 4: A new Closing Case on the recent Scandal at Volkswagen

Chapter 5: A new Closing Case on Unilever's Comparative and Competitive Advantages

Chapter 6: A new Opening Case on Galileo: Regional Disintegration and Its Consequences

Chapter 7: A new Opening Case on Tripartism: Singapore's Key Competitive Advantage

Chapter 13: A new Closing Case on Inditex and Zara: A Tale of Comparative Advantages

Chapter 15: A heavily revised Closing Case on Subway and the Challenges of Franchising in China

Chapter 16: A heavily revised Opening Case on *Michael Kors: The Global Affordable Luxury Market*

In addition, for our feature *You Can Do It: Recent Grad in IB*, we have added new biographies of young graduates with careers in international business. In Chapter 1, we added *Mary Lyles*, who works in global sourcing for Starbucks; and in Chapter 15, we added *Juanita Velez*, who works in international social media at Delta Air Lines.

In various chapters, we also added several new exhibits and significant new material on such contemporary topics as preparing for international travel, the rise of digital technologies, the trade and GDP growth relationship, the meaning of colors worldwide, workplace harassment, Brexit and the UK, populism, national governance, blockchain and cryptocurrencies, carbon taxes, cross-national project management, the Global Connectedness Index, global sourcing for smartphones, reshoring and nearshoring, the best global companies to work for, and women in international business, among numerous others.

Solving Teaching and Learning Challenges

Today's students—often called Generation Z, Post Millennials, or the iGen—have grown up in a constantly connected world. To address the unique wants, needs and learning style of Generation Z students, we have designed CKR 5e to emphasize the following features:

- Visual learning. CKR 5e emphasizes interactive media and videos as well as exhibits, maps, and other visual learning aids. The MyLab Management provides access to a wide variety of additional visual resources.
- *Relevant knowledge and job-related skills*. CKR 5e includes more relevant examples and activities, concise foundational course content, Intangible Soft Skills, and Tangible Process Skills that prepare Generation Z students for the work world.
- Contemporary issues that matter to Generation Z. CKR 5e emphasizes the new international business environment, in-depth coverage of contemporary international business topics such as emerging markets, developing economies, growth of the service sector, risks

in international business, digital technologies, women in international business, and other important trends.

- Meaningful content. CKR 5e provides substantial content on ethics, corporate social responsibility, and sustainability in international business.
- Digital platform. Generation Z learners prefer content that they can read or access digitally at a time and place of their choosing. Digital learning enhances engagement, self-pacing, and the ability to customize content to individual needs. Digital platforms help ensure timely, up-to-date content and the ability to collaborate with peers. In these and other ways, CKR 5e provides such digital options. To improve Generation Z students results, we recommend pairing the text content with MyLab Management, which is the teaching and learning platform that empowers you to reach every student. By combining trusted author content with digital tools and a flexible platform, MyLab personalizes the learning experience and will help your students learn and retain key course concepts while developing skills that future employers are seeking in their candidates. MyLab Management helps you teach your course, your way. Learn more at www.pearson.com/mylab/management.

Some of the main features of the textbook and MyLab are as follows:

HIGHLY ACCESSIBLE WRITING AND EXPLANATIONS THAT ENGAGE STUDENTS. Opening and closing cases appeal to students, featuring firms and subjects such as Apple, IKEA, Vodafone, H&M, born global firms, social media in China, and the global movie industry. The content stimulates student desire to learn more about international business.

Constantly fluctuating exchange rates require international managers to keep in mind three facts:

- The prices the firm charges can be quoted in the firm's currency or in the currency of each foreign customer.
- · Because several months can pass between placement and delivery of an order, fluctuations in the exchange rate during that time can cost or earn the firm money.
- The firm and its customers can use the exchange rate as it stands on the date of each transaction, or they can agree to use a specific exchange rate.

MORE EXERCISES AND ACTIVITIES THAT ENABLE STUDENTS TO ACQUIRE CRITICAL THINKING AND PROBLEM-SOLVING SKILLS. CKR 5e contains 174 exhibits (about three times more than leading competitors). Students like exhibits because they help clarify complex material and facilitate reading the chapters.

TANGIBLE PROCESS TOOLS. They are designed to simulate real-world decision making that will help increase effectiveness in the workplace.

GROUP PROJECT ON INTERNATIONAL CORPORATE SOCIAL **RESPONSIBILITY.** CKR 5e contains a comprehensive activity in which students debate corporate social responsibility (CSR) in international business. In this extended exercise, located in the Instructor's Manual, students debate the merits and consequences of CSR as executives, consumers, or activists.

YOU CAN DO IT-RECENT GRAD IN IB BIOGRAPHIES, CKR 5e offers eleven biographies of actual university graduates who have embarked on fascinating careers in international business. These biographies include comments concerning the specific intangible soft skills that have helped them be successful in work.

You Can Do It

RECENT GRAD IN IB

TERRANCE ROGERS

Terrance's Majors: Finance and international business
Objectives: Exploration, international perspective, self-awareness, career growth, and learning about foreign markets
Internships during college: Deutsche Bank
Jobs held since graduating:

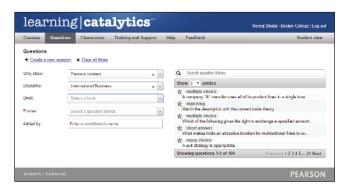
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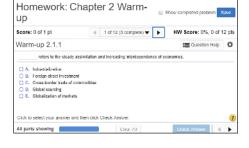
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LEARNING CATALYTICS™. With this tool, you'll hear from every student when it matters most. You pose a variety of questions that help students recall ideas, apply concepts, and develop critical-thinking skills. Your students respond using their own smartphones, tablets, or laptops.



CHAPTER WARM-UP. These questions help you hold your students accountable for learning key concepts in each chapter before coming to class.





VIDEOS EXERCISES. Engaging Videos explore a variety of business topics related to the theory students are learning in class.

Exercise Quizzes assess students' comprehension of the concepts in each video.

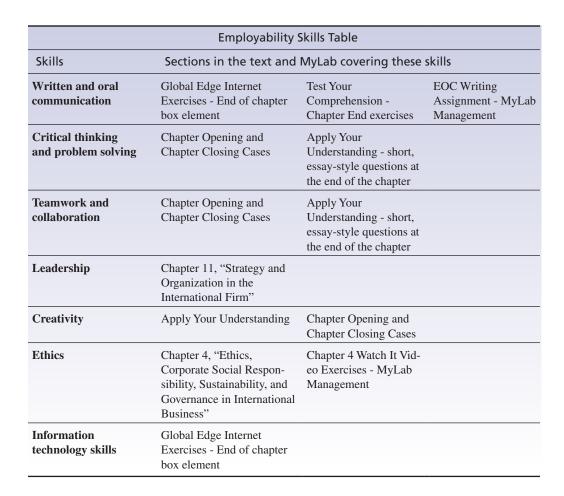
Developing Employability Skills

The Association to Advance Collegiate Schools of Business (AACSB) International increasingly advocates a more skills-oriented, practical approach in business books, which this text provides, rather than a theory-based approach.

For students to succeed in a rapidly changing job market, they should be aware of their career options and how to develop various critical skills. In this book and MyLab Management, we focus on developing these skills.

The CKR 5e Career Preparation KitTM incorporates CKR Tangible Process ToolsTM as well as CKR Intangible Soft SkillsTM, which constitute guidelines of the Association to Advance Collegiate Schools of Business (AACSB). CKR Intangible Soft Skills focus on the skills employers have identified as needed for employability and success in the marketplace today. The CKR Tangible Process Tools will help students increase their effectiveness in the workplace.

The Employability Skills Table below provides students with a guide to features that support the development of skills employers are looking for in today's business graduates, helping students to see from the start of class the relevance of the course to their career goals. This table identifies which features and end-of-chapter materials will help students to develop these skills.



OPENING CASE. Each chapter begins with a brief case study that illustrates chapter topics and asks key questions about real-world companies and situations covered in the case.



CLOSING CASE. Every chapter closes with an extensive case study that addresses the learning objectives highlighted in the chapter. The cases help students build managerial skills by applying chapter material to a situation faced by real-world managers. Questions accompany the case for assignment as homework. Class discussion helps students sharpen their analytical and decision-making skills.

CLOSING CASE Internationalization at Vodafone

Vodafone, a British company headquartered in Newbury, Berk-shire, England, is the world's second largest mobile communi-cations operator, with networks in 64 countries in five continents, earing 458 million customers. Its annual revenues in 2018 were \$53.3 billion and its earnings before interest, taxes, depreciation, and amortization were \$16.8 billion. About 66 percent of Vodafone's revenues come from con-sumer services and 20 nevent from bytiesse, customers in

of revenue:

Mobile data: The year 2018 saw an overall growth of 63 percent with 43 customers reaching 122 million. Smartphone use
was up 51 percent compared to 2017/Exed Services (e.g. broadband) as a percentage of the overall revenue has increased from
22 percent in 2015 to 25 percent in 2018

Enterprise (business services): This is a growing part of the
business, representing some 29 percent of the group's revenue.
There was a 0.9 percent growth in 2018 compared to 2017.

fragmented with scores of small operators jockeying for limited geographical territories. In June 1999, the British company was successful in acquiring a 45 percent stake in AirTouch Cellular, a Californian corporation using the AMPS technology standard. A

Variater, it was renamed to Verizon Wireless.

With new confidence after this strategic move, Vodafone made an offer to buy a controlling interest in Mannesmann, Germany's an offer to buy a controlling interest in Mannesmann, Germany's second largest mobile operator, which was already in partnership negotiations with two heavyweights of the industry, Hong Kong's Hutchinson Whampoa and France's Wvendi. Mannesmann's CEO and Board replied they were not interested to sell. Vodafone swiftly made a hostile takeover bid directly to the German company's shareholders. In spite of resistance from the German government and the general public, in February 2000, Vodafone succeeded in striking a friendly merger, paying \$180.95 billion for the control of 50.5 percent of the new company. This transaction, the largest cross-border merger ever, did not involve any cash: Mannesmann's shareholders received Vodafone shares in lieu of payment.

payment.
The company's global expansion followed rapidly, and the stock-swap payment method has been enshrined in Vodafone's

TEST YOUR COMPREHENSION. A list of 6 to 12 short questions assesses student learning of chapter learning objectives and other chapter concepts.

APPLY YOUR UNDERSTANDING. An additional collection of three short, essay-style questions aims to have students apply chapter material to real-world international business practice.



Access globalEDGETM at www.globalEDGE.msu.edu

AACSB and CKR Intangible Soft Skills to improve employability and success in the workplace: Information Technology, Application of Knowledge, Diverse and Multicultural Work Environments, Written and Oral Communication, Analytical Thinking and Reflective Thinking

Knowledge Portal

globalEDGE™ is a leading knowledge portal for professionals in international business. It is a gateway to specialized knowledge on countries, international business transactions, culture, and of controles, international business trainsactions, cuttine, and firm practice. globalEDGE™ was developed at Michigan State University under the direction of Professor S. Tamer Cavusgil. Consult the globalEDGE™ portal to complete the Internet exercises at the end of each chapter.

- 1-20. You can gain valuable insights into international business by examining how countries compare to each other. Various research groups and international agencies system atically examine economic, political, and other features of nations. Visit globalEDGETM Tools and Data, scroll down, and click Interactive Rankings. Select Countries. You will find dozens of criteria ranking countries based on GDP per capita; Education—literacy rate; People—population total; People—population density; Health—mortality rate; Energy—electricity production; Infrastructure—mobile cellular subscriptions; Infrastructure-roads, total network; Trade and Investment—foreign direct investment net in-flows; and many other factors. Choose the ranking crite-ria that interest you most, and then examine the following three countries: Germany, India, and South Africa. Based on your analysis, explain why they rank where they do. Do
- neir relative positions make sense to you? Does each coun y seem like a good place to do business? Why or why not? Hint: Evaluate countries on a per-capita basis by divid-
- ing each criterion by the country's population.

 1-21. In this chapter, we reviewed the four major risks that firms face in international business: cross-cultural risk, country risk, currency risk, and commercial risk, Identify one balEDGE™ and research the countries to uncover examples of each of the four types of risks. For example, China is characterized by various cultural differences and a national government that tends to intervene in business. Research
- 1-22. You have recently been hired by a smaller firm that is be ginning to expand internationally. When first starting out, most firms choose exporting as their main foreign market entry strategy. However, no one in your firm knows how to conduct exporting. Therefore, your boss has given you an assignment: Prepare a presentation for your coworkers on how to engage in exporting. Using globalEDGETM, find and review Guide to Exporting, which you can use to create your presentation

GLOBALEDGE INTERNET EXERCISES. GlobalEDGETM (https:// globaledge.msu.edu) was developed by CKR author S. Tamer Cavusgil and is the leading knowledge portal for professionals in international business. It provides a gateway to specialized knowledge on countries, crossborder ventures, culture, and company practice. Each chapter provides several globalEDGE exercises as the basis for student assignments and projects.

CKR TANGIBLE PROCESS TOOLS™. These practical exercises familiarize students with key managerial challenges and decision making that professionals typically encounter in international business. By completing CKR Tangible Process ToolsTM exercises, students can acquire realworld skills that will help them perform better in their careers.

CKR Tangible Process Tools™

What is a CKR Tangible Process Tool Exercise?

CKR Tangible Process Tools consist of practical exercises and work processes designed to familiarize you with key managerial challenges and decisions that professionals typically encounter in international business. Completing CKR Tangible Process Tool exercises in this text enables you to acquire practical, real-world work processes that will improve employability and success in the workplace. Each exercise presents a managerial challenge in a real-world scenario, the skills you will acquire in solving the exercise, and a methodology and the resources to use in solving it. The second half of the exercise is provided at the Pearson MyLab Management website (www.pearson.com/mylab/management).

AACSB TAGGING. This book and MyLab Management support AACSB international accreditation. In every chapter, after each section of questions, specific AACSB tagging is provided to help instructors identify which AACSB Intangible Soft Skills that activity supports. AACSB tagging is also part of all questions in the Test Item File that accompanies the book.

Instructor Teaching Resources

At the Instructor Resource Center, www.pearsonglobaleditions.com, instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit https://support.pearson.com/getsupport for answers to frequently asked questions and toll-free user support phone numbers.

Supplements available to instructors at www.pearsonglobaleditions.com	Features of the Supplement
Instructor's Resource Manual authored by Marta Szabo White, S. Tamer Cavusgil, Gary Knight, and John Riesenberger	 Chapter-by-chapter summaries Examples and activities not in the main book Teaching outlines Teaching tips, including openers to help launch lectures Solutions to all questions and problems in the book
Test Bank authored by John Capela	 1,600 multiple-choice, true/false, short-answer, and essay questions with the following annotations: Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis) Type (multiple-choice, true/false, short-answer, essay) Learning objective AACSB learning standard (Written and Oral Communication, Ethical Understanding and Reasoning, Analytical Thinking, Information Technology, Interpersonal Relations and Teamwork, Diverse and Multicultural Work Environments, Reflective Thinking, and/or Application of Knowledge)
TestGen® Computerized Test Bank	TestGen allows instructors to: Customize, save, and generate classroom tests Edit, add, or delete questions from the Test Item Files Analyze test results Organize a database of tests and student results
PowerPoints Presentations authored by S. Tamer Cavusgil, Gary Knight, and John Riesenberger	 Cover all concepts, explanations, and major examples in each chapter Include all exhibits in the textbook Meet accessibility standards for students with disabilities. Features include, but not limited to: Keyboard and Screen Reader access Alternative text for images High color contrast between background and foreground colors
Image Library	A collection of photos and other images for use in enhancing PowerPoints and other teaching materials related to CKR 5e

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Professor Tamer Cavusgil has been mentoring students, executives, and educators in international business for the past four decades. A native of Turkey, his professional work has taken him to numerous other emerging markets.

Tamer serves as Fuller E. Callaway Professorial Chair at Georgia State University's Robinson College of Business. He is also a visiting professor at Leeds University Business School, U.K. and at the University of South Australia. He is also a Trustee of Sabanci University in Istanbul.

Previously, Tamer served as Senior Fulbright Scholar to Australia and taught at Monash University. Tamer also served as a visiting professor at Manchester Business School and held the Gianni and Joan Montezemolo Visiting Chair at the University of Cambridge, United Kingdom, where he is also an Honorary Fellow of Sidney Sussex College. At Michigan State University, where he served for 21 years, he was the inaugural holder of the John Byington Chair in Global Marketing and founding director of CIBER.

Tamer is an elected fellow of the Academy of International Business (AIB), a distinction earned by a select group of intellectual leaders in international business. He also served as vice president of the AIB and on the Board of Directors of the American Marketing Association.

Tamer has authored several dozen books and some 200 refereed journal articles. His work is among the most cited contributions in international business. Various reviews have listed him as one of the most influential and prolific authors in international management. Google Scholar indicates more than 36,000 citations as of 2018 (h-index of 82) and lists him among the top five scholars in the world in international business, international marketing, emerging markets, and export marketing.

Tamer was awarded an honorary doctorate, *Doctor Honoris Causa*, by The University of Hasselt, Belgium, in May 2014 and an honorary doctorate from the University of Southern Denmark in October 2017. In 2018, Tamer was named an honorary professor by Atilim University in Ankara, Turkey.

Tamer was named International Trade Educator of the Year in 1996 by the National Association of Small Business International Trade Educators (NASBITE).

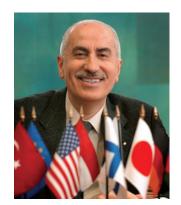
Tamer holds a bachelor of science degree in business and economics from the Middle East Technical University in Ankara, Turkey. He earned his MBA and PhD degrees in business from the University of Wisconsin.

Gary Knight

Willamette University, Professor of Global Management and Helen Simpson Jackson Chair in International Management

Professor Gary Knight has been teaching international business for 25 years. A native of the United States, he has lived and worked in many countries around the world.

Gary has been Helen Simpson Jackson Chair in International Management at Willamette University since 2012. He was a professor at Florida State University for 15 years, where he directed the school's International Business Program. He also has been a visiting professor at the University of Southern Denmark and Nihon University in Japan.





Gary has been an invited speaker at institutions worldwide and developed study abroad programs in Asia, Europe, and Latin America. He has won several awards, including the Jerry Hudson Award for Excellence in Teaching, Willamette University, and Best Teacher in the MBA Program, Florida State University.

Gary has coauthored six books and more than 100 refereed articles in academic journals and conference proceedings. His research emphasizes international business strategy, international services, emerging markets, and internationalization of small and medium-sized firms.

Gary won the Hans Thorelli Best Paper Award for his article "Entrepreneurship and Strategy: The SME Under Globalization." Along with S. Tamer Cavusgil, he won the 2014 Decade Award at the *Journal of International Business Studies* for their article on born global firms.

Gary is ranked in the top 5 percent of scholars who have published in the *Journal of International Business Studies* since 1995, based on number of articles published. He is ranked among the top five scholars in the United States and top 15 worldwide in international business research impact based on Google Scholar citation data. He is on the editorial review boards of several international journals. He has provided expert testimony on global commerce and small business to the U.S. House of Representatives.

Gary is chair of the Academy of International Business, Western United States Chapter. Prior to joining academia, he was export manager of a medium-sized enterprise, directing the firm's operations in Canada, Europe, Japan, and Mexico and supervising some 50 distributors. He enjoyed a brief career in banking and as a teacher in Japan.

Gary earned his MBA at the University of Washington and PhD at Michigan State University, both in international business. Earlier degrees were in finance and modern languages. He also attended the University of Paris in France and Sophia University in Japan and is fluent in French and Japanese.



John R. Riesenberger

President, Consilium Partners

Thunderbird School of Global Management, Clinical Professor of Executive Development, Corporate Learning Group (retired)

Professor Riesenberger's teaching activities centered on leadership and global project management at the Thunderbird School of Global Management, Corporate Learning Group. His passion is to help students and young professionals develop the managerial skills frequently required of new graduates entering careers in international business.

John is an accomplished author, consultant, and international executive with senior executive positions in major pharmaceutical firms, biotechnology firms, and pharmaceutical agencies. John's international business career spans more than three decades in the global pharmaceutical industry. He has conducted business transactions in 22 countries.

Currently, he also serves as the president of Consilium Partners, Inc., a pharmaceutical consulting firm with clients in pharmaceutical, biotechnology, and pharmaceutical agency firms.

He worked for 30 years with Pharmacia & Upjohn and The Upjohn Company as a senior international executive. His experience covered a diverse range of divisional, geographic, and functional accountabilities. His most recent position was as vice president of Global Business Management. He also served as corporate vice president and chief commercialization officer for a biotechnology firm and as the executive vice president of a pharmaceutical science agency.

John serves as a member of the board of directors of the Ontario Institute for Cancer Research. He was a member of the Global Advisory Board of the American Marketing Association. He served as an executive in residence at the Michigan State University Center for International Business Education and Research. He served on the editorial review board of the *Journal of International Marketing*. He served as chairman of the Industry Advisory Board's Value of Marketing Program, SEI Center for the Advanced Studies in Management at the Wharton School of

the University of Pennsylvania. He is the former chairman of the Pharmaceutical Manufacturing Association Marketing Practices Committee. Professor Riesenberger is the coauthor, with Robert T. Moran, of *The Global Challenge: Building the New Worldwide Enterprise* (McGraw-Hill, London).

John holds a bachelor of science degree in economics-business and an MBA in management from Hofstra University. He attended the Harvard Business School's International Senior Management Program.

Part 1 | Foundation Concepts



Introduction: What Is International Business?

Learning Objectives *After studying this chapter, you should be able to:*

- **1.1** Describe the key concepts in international business.
- 1.2 Understand how international business differs from domestic business.
- **1.3** Identify major participants in international business.
- **1.4** Describe why firms internationalize.

- Appreciate why you should study international business.
- 1.6 Learn the CKR Intangible Soft Skills™ and the CKR Tangible Process Tools™ to improve your employability and success in the workplace.

China Globalizes London's Black Cabs

lobalization refers to international transactions, cooperation, and competition among firms. China has become one of the most active trading nations in an increasingly globalized world. China's drive in transforming itself into an industrial economy gave birth to a thriving automobile industry, and Geely Automobile Holdings Limited, founded in 1986, was one of the products of that revolution. A subsidiary of Li Shufu's Zhejiang Geely Group, Geely began with motorcycle production and eventually, in 1997, it started manufacturing cars. Geely's moto, "Happy Life, Geely Drive" encourages its customers, suppliers, and human resources to participate in ensuring safe, environmentally friendly automobiles. Relentless pursuit of better technology, foreign brands, and overseas markets resulted in Geely's European acquisition of Volvo cars in 2010 and London Taxi Company (LTC) in 2012.

London EV Company, or LEVC (formerly London Taxi Company), is the manufacturer of the iconic London Black Cabs. Coventry has been the home of the company for the last 70 years. Coventry is the birthplace of the British motor industry and has a long tradition of manufacturing iconic automobile brands like Jaguar, Rover, Triumph, and Armstrong Siddeley. The FX4 model taxis rolled out in 1959 from the Coventry plant set the quintessential mold for the black cabs.

LEVC formed a partnership with Geely in 2006 and finally acquired the taxi maker in 2012 for \$14.96 million after it went into administration. LEVC's current annual production is approximately 2,000 taxis. Geely has been constantly investing to increase capacity and competitiveness since acquisition. In 2016, the company announced a \$400 million investment to build a new factory with a production capacity of approximately 36,000 cars